

REFINITIV

DELTA REPORT

10-Q

ESP - ESPEY MFG & ELECTRONICS C

10-Q - MARCH 31, 2023 COMPARED TO 10-Q - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 460

█ CHANGES 220

█ DELETIONS 123

█ ADDITIONS 117

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, 2022** **March 31, 2023**

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
(State of incorporation)

Trading Symbol
ESP

14-1387171
(I.R.S. Employer's Identification No.)

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

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

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 Data 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 9, 2023** **May 11, 2023**, there were 2,702,633 shares outstanding of the registrant's Common stock, \$.33-1/3 par value.

ESPEY MFG. & ELECTRONICS CORP.
Quarterly Report on Form 10-Q
INDEX

		PAGE
PART I	<u>FINANCIAL INFORMATION</u>	
Item 1	<u>Financial Statements:</u>	
	<u>Balance Sheets - December 31, 2022</u> <u>March 31, 2023</u> (Unaudited) and <u>June 30, 2022</u>	1
	<u>Statements of Comprehensive Income (Unaudited) - Three and Six Nine Months Ended December 31, 2022</u> <u>March 31, 2023 and 2021</u> <u>2022</u>	2
	<u>Statements of Changes in Stockholders' Equity (Unaudited) - Three and Six Nine Months Ended December 31, 2022</u> <u>March 31, 2023 and 2021</u> <u>2022</u>	3
	<u>Statements of Cash Flows (Unaudited) - Six Nine Months Ended December 31, 2022</u> <u>March 31, 2023 and 2021</u> <u>2022</u>	7
	<u>Notes to Financial Statements (Unaudited)</u>	8
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	20
Item 4	<u>Controls and Procedures</u>	20
PART II	<u>OTHER INFORMATION</u>	21
Item 1	<u>Legal Proceedings</u>	21
Item 2	<u>Unregistered Sales of Equity Securities</u>	21
Item 3	<u>Defaults Upon Senior Securities</u>	21
Item 4	<u>Mine Safety Disclosures</u>	21
Item 5	<u>Other Information</u>	21
Item 6	<u>Exhibits</u>	21
	<u>SIGNATURES</u>	22

PART I: FINANCIAL INFORMATION
ESPEY MFG. & ELECTRONICS CORP.

Balance Sheets

December 31, 2022, March 31, 2023 (Unaudited) and June 30, 2022

	December 31, 2022	June 30, 2022	March 31, 2023	June 30, 2022
ASSETS				
Cash and cash equivalents	\$ 6,328,442	\$ 8,104,060	\$ 4,578,846	\$ 8,104,060
Investment securities	10,067,377	3,708,779	13,879,337	3,708,779
Trade accounts receivable, net of allowance of \$3,000	4,609,444	5,733,174	4,330,385	5,733,174
 Inventories:				
Raw materials	2,132,004	2,037,483	1,964,258	2,037,483
Work-in-process	126,571	315,547	262,875	315,547
Costs related to contracts in process	16,511,931	16,207,419	16,461,404	16,207,419
Total inventories	18,770,506	18,560,449	18,688,537	18,560,449
 Prepaid expenses and other current assets				
	2,161,460	992,774	2,475,723	992,774
Total current assets	41,937,229	37,099,236	43,952,828	37,099,236
 Property, plant and equipment, net				
	2,659,521	2,797,993	2,612,561	2,797,993
 Total assets	\$ 44,596,750	\$ 39,897,229	\$ 46,565,389	\$ 39,897,229
 LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable	\$ 2,905,391	\$ 2,079,177	\$ 2,898,852	\$ 2,079,177
Accrued expenses:				
Salaries and wages	400,302	627,187	542,180	627,187
Vacation	686,965	666,380	751,888	666,380
ESOP payable	155,477	—	230,403	—
Other	534,609	752,554	276,362	752,554
Payroll and other taxes withheld	57,415	55,292	57,248	55,292
Contract liabilities	5,286,073	3,384,474	6,566,188	3,384,474
Income taxes payable	282,564	54,722	292,742	54,722
Total current liabilities	10,308,796	7,619,786	11,615,863	7,619,786
 Deferred tax liabilities				
	169,940	177,829	146,644	177,829
Total liabilities	10,478,736	7,797,615	11,762,507	7,797,615
 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, 2022 and June 30, 2022. Outstanding 2,702,633 shares as of December 31, 2022 and June 30, 2022 (includes 245,049 and 256,293 Unearned ESOP shares, respectively)	1,043,291	1,043,291		
Authorized 10,000,000 shares; Issued 3,129,874 shares as of March 31, 2023 and June 30, 2022. Outstanding 2,702,633 shares as of March 31, 2023 and June 30, 2022 (includes 239,427 and 256,293 Unearned ESOP shares, respectively)			1,043,291	1,043,291
Capital in excess of par value	23,207,870	23,104,693	23,269,445	23,104,693
Accumulated other comprehensive loss	(1,017)	(1,932)	(377)	(1,932)
Retained earnings	20,594,165	18,679,857	21,216,818	18,679,857
	44,844,309	42,825,909	45,529,177	42,825,909
 Less: Unearned ESOP shares	(4,687,604)	(4,687,604)	(4,687,604)	(4,687,604)

Cost of 427,241 shares of common stock in treasury as of December 31, 2022 and June 30, 2022	(6,038,691)	(6,038,691)
Cost of 427,241 shares of common stock in treasury as of March 31, 2023 and June 30, 2022		(6,038,691) (6,038,691)
Total stockholders' equity	34,118,014	32,099,614
Total liabilities and stockholders' equity	\$ 44,596,750	\$ 39,897,229

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

ESPEY MFG. & ELECTRONICS CORP.
Statements of Comprehensive Income (Unaudited)
Three and **Six** Nine Months Ended **December 31, 2022** **March 31, 2023** and **2021** **2022**

	Three Months Ended December 31, 2022		Six Months Ended December 31, 2022		Three Months Ended March 31, 2023		Nine Months Ended March 31, 2023	
	2022	2021	2022	2021	2023	2022	2023	2022
Net sales	\$ 8,804,109	\$ 7,458,050	\$ 17,439,904	\$ 15,003,482	\$ 9,809,616	\$ 8,620,049	\$ 27,249,520	\$ 23,623,531
Cost of sales	6,543,387	6,251,233	13,367,040	12,443,567	7,836,187	6,885,169	21,203,227	19,328,736
Gross profit	2,260,722	1,206,817	4,072,864	2,559,915	1,973,429	1,734,880	6,046,293	4,294,795
Selling, general and administrative expenses	874,931	1,186,168	1,713,961	2,180,990	1,014,739	933,725	2,728,700	3,114,715
Operating income	1,385,791	20,649	2,358,903	378,925	958,690	801,155	3,317,593	1,180,080
Other income								
Interest income	64,625	1,716	73,432	3,312	133,145	2,987	206,577	6,299
Other	8,917	10,105	12,684	28,076	12,665	2,674	25,349	30,750
Total other income	73,542	11,821	86,116	31,388	145,810	5,661	231,926	37,049
Income before provision for income taxes	1,459,333	32,470	2,445,019	410,313	1,104,500	806,816	3,549,519	1,217,129
Provision for income taxes	313,291	11,269	530,711	83,051	237,212	145,457	767,923	228,508
Net income	\$ 1,146,042	\$ 21,201	\$ 1,914,308	\$ 327,262	\$ 867,288	\$ 661,359	\$ 2,781,596	\$ 988,621
Other comprehensive income, net of tax:								
Unrealized gain on investment securities	2,678	—	915	—	640	838	1,555	838
Total comprehensive income	\$ 1,148,720	\$ 21,201	\$ 1,915,223	\$ 327,262	\$ 867,928	\$ 662,197	\$ 2,783,151	\$ 989,459
Net income per share:								
Basic	\$ 0.47	\$ 0.01	\$ 0.78	\$ 0.14	\$ 0.35	\$ 0.27	\$ 1.13	\$ 0.41
Diluted	\$ 0.47	\$ 0.01	\$ 0.78	\$ 0.14	\$ 0.35	\$ 0.27	\$ 1.13	\$ 0.41
Weighted average number of shares outstanding:								
Basic	2,452,064	2,429,051	2,449,233	2,426,159	2,457,727	2,434,836	2,452,023	2,429,009
Diluted	2,452,064	2,429,199	2,449,791	2,426,233	2,484,218	2,434,836	2,461,099	2,429,059
Dividends per share:					\$ 0.10	\$ 0.00	\$ 0.10	\$ 0.00

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

Index

Espey Mfg. & Electronics Corp.
 Statements of Changes in Stockholders' Equity (Unaudited)
 Three Months Ended December 31, 2022 March 31, 2023

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Other Comprehensive (Loss) Gain	Retained Earnings	Treasury Shares	Treasury Amount	Unearned ESOP Shares	Stockholders' Equity	Total	Outstanding Shares	Common Amount
Balance as of September 30, 2022	2,702,633	\$ 1,043,291	\$ 23,165,952	\$ (3,695)	\$ 19,448,123	427,241	\$ (6,038,691)	\$ (4,687,604)	\$ 32,927,376			
Balance as of December 31, 2022										2,702,633	\$ 1,043,291	
Comprehensive income:												
Net income					1,146,042				1,146,042			
Other comprehensive income, net of tax of \$562				2,678					2,678			
Other comprehensive income, net of tax of \$134												
Total comprehensive income				41,918					41,918			
Stock-based compensation												
Balance as of December 31, 2022	2,702,633	\$ 1,043,291	\$ 23,207,870	\$ (1,017)	\$ 20,594,165	427,241	\$ (6,038,691)	\$ (4,687,604)	\$ 34,118,014			
Dividends paid on common stock \$0.10 per share												
Balance as of March 31, 2023										2,702,633	\$ 1,043,291	

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

Index

Espey Mfg. & Electronics Corp.

Statements of Changes in Stockholders' Equity (Unaudited)

Six Months Ended December 31, 2022

	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, 2022	2,702,633	\$ 1,043,291	\$ 23,104,693	\$ (1,932)	\$ 18,679,857	427,241	\$ (6,038,691)	\$ (4,687,604)	\$ 32,099,614
Comprehensive income:									
Net income					1,914,308				1,914,308
Other comprehensive income, net of tax of \$192					915				915
Total comprehensive income									1,915,223
Stock-based compensation				103,177					103,177
Balance as of December 31, 2022	2,702,633	\$ 1,043,291	\$ 23,207,870	\$ (1,017)	\$ 20,594,165	427,241	\$ (6,038,691)	\$ (4,687,604)	\$ 34,118,014

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

Index

Espey Mfg. & Electronics Corp.

Statements of Changes in Stockholders' Equity (Unaudited)

Three Nine Months Ended December 31, 2021 March 31, 2023

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Shares	Treasury Amount	Unearned ESOP Shares	Total Stockholders' Equity
Balance as of September 30, 2021	2,702,633	\$ 1,043,291	\$ 23,078,872	\$ (2,361)	\$ 17,720,791	427,241	\$ (6,038,691)	\$ (5,110,770)	\$ 30,691,132
Net income					21,201				21,201
Stock-based compensation				41,791					41,791
Balance as of December 31, 2021	2,702,633	\$ 1,043,291	\$ 23,120,663	\$ (2,361)	\$ 17,741,992	427,241	\$ (6,038,691)	\$ (5,110,770)	\$ 30,754,124

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

Index

Espey Mfg. & Electronics Corp.

Statements of Changes in Stockholders' Equity (Unaudited)

Six Months Ended December 31, 2021

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Shares	Treasury Amount	Unearned ESOP Shares	Stockholders' Equity	Total	Outstanding Shares	Common Amount
Balance as of June 30, 2021	2,702,633	\$ 1,043,291	\$ 23,026,096	\$ (2,361)	\$ 17,414,730	427,241	\$ (6,038,691)	\$ (5,110,770)	\$ 30,332,295			
Balance as of June 30, 2022										2,702,633	\$ 1,043,291	\$ 23,026,096
Comprehensive income:												
Net income					327,262				327,262			
Other comprehensive income, net of tax of \$327												
Total comprehensive income												
Stock-based compensation				94,567					94,567			
Balance as of December 31, 2021	2,702,633	\$ 1,043,291	\$ 23,120,663	\$ (2,361)	\$ 17,741,992	427,241	\$ (6,038,691)	\$ (5,110,770)	\$ 30,754,124			
Dividends paid on common stock \$0.10 per share												
Balance as of March 31, 2023										2,702,633	\$ 1,043,291	\$ 23,026,096

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

Index

Espey Mfg. & Electronics Corp.

Statements of Changes in Stockholders' Equity (Unaudited)

Three Months Ended March 31, 2022

	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 December 31, 2021	2,702,633	\$ 1,043,291	\$ 23,120,663	\$ (2,361)	\$ 17,741,992	427,241	\$ (6,038,691)	\$ (5,110,770)	\$ 30,754,124
Comprehensive income:									
Net income					661,359				661,359
Other comprehensive income, net of tax of \$176					838				838
Total comprehensive income									662,197
Stock-based compensation			39,699						39,699
Balance as of March 31, 2022	2,702,633	\$ 1,043,291	\$ 23,160,362	\$ (1,523)	\$ 18,403,351	427,241	\$ (6,038,691)	\$ (5,110,770)	\$ 31,456,020

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

Index

Espey Mfg. & Electronics Corp.

Statements of Changes in Stockholders' Equity (Unaudited)

Nine Months Ended March 31, 2022

	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, 2021	2,702,633	\$ 1,043,291	\$ 23,026,096	\$ (2,361)	\$ 17,414,730	427,241	\$ (6,038,691)	\$ (5,110,770)	\$ 30,332,295
Comprehensive income:									
Net income					988,621				988,621
Other comprehensive income, net of tax of \$176					838				838
Total comprehensive income									989,459
Stock-based compensation			134,266						134,266
Balance as of March 31, 2022	2,702,633	\$ 1,043,291	\$ 23,160,362	\$ (1,523)	\$ 18,403,351	427,241	\$ (6,038,691)	\$ (5,110,770)	\$ 31,456,020

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

ESPEY MFG. & ELECTRONICS CORP.
Statements of Cash Flows (Unaudited)
Six Nine Months Ended December 31, 2022 March 31, 2023 and 2021 2022

	December 31, 2022	December 31, 2021
Cash Flows from Operating Activities:		
Net income	\$ 1,914,308	\$ 327,262
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	103,177	94,567
Depreciation	242,357	253,846
ESOP compensation expense	155,477	168,318
Deferred income tax benefit	(7,889)	(33,908)
Gain on disposal of assets	(2,500)	—
Changes in assets and liabilities:		
Decrease in trade accounts receivable	1,123,730	465,382
Increase in income taxes receivable	—	(3,041)
Increase in inventories	(210,057)	(537,319)
Increase in prepaid expenses and other current assets	(1,168,686)	(108,560)
Increase (decrease) in accounts payable	826,214	(132,999)
(Decrease) increase in accrued salaries and wages	(226,885)	173,422
Increase (decrease) in vacation accrual	20,585	(16,319)
Decrease in other accrued expenses	(217,945)	(68,977)
Increase (decrease) in payroll and other taxes withheld	2,123	(130,957)
Increase (decrease) in contract liabilities	1,901,599	(172,859)
Increase in income taxes payable	227,842	—
Net cash provided by operating activities	<u>4,683,450</u>	<u>277,858</u>
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(103,885)	(97,288)
Proceeds from sale of fixed assets	2,500	—
Purchase of investment securities	(8,515,017)	(2,061,000)
Proceeds from sale/maturity of investment securities	2,157,334	2,096,000
Net cash used in investing activities	<u>(6,459,068)</u>	<u>(62,288)</u>
(Decrease) increase in cash and cash equivalents	(1,775,618)	215,570
Cash and cash equivalents, beginning of period	8,104,060	6,802,712
Cash and cash equivalents, end of period	<u>\$ 6,328,442</u>	<u>\$ 7,018,282</u>
Supplemental Schedule of Cash Flow Information:		
Income taxes paid	\$ 311,000	\$ 120,000
	<u>March 31, 2023</u>	<u>March 31, 2022</u>
Cash Flows from Operating Activities:		
Net income	\$ 2,781,596	\$ 988,621
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	164,752	134,266
Depreciation	363,945	373,830
ESOP compensation expense	256,032	245,362
Deferred income tax benefit	(31,185)	(50,336)
Gain on disposal of assets	(2,500)	(2,000)
Changes in assets and liabilities:		
Decrease (increase) in trade accounts receivable	1,402,789	(289,088)
Decrease in income taxes receivable	—	158,439
Increase in inventories	(128,088)	(152,211)
Increase in prepaid expenses and other current assets	(1,482,949)	(228,539)
Increase (decrease) in accounts payable	819,675	(619,925)
(Decrease) increase in accrued salaries and wages	(85,007)	101,487
Increase in vacation accrual	85,508	79,846
Decrease in ESOP payable	(25,629)	—
(Decrease) increase in other accrued expenses	(476,192)	145,789
Increase (decrease) in payroll and other taxes withheld	1,956	(350,924)
Increase in contract liabilities	3,181,714	276,461

Increase in income taxes payable	238,020	—
Net cash provided by operating activities	<u>7,064,437</u>	<u>811,078</u>
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(178,513)	(216,500)
Proceeds from sale of fixed assets	2,500	2,000
Purchase of investment securities	(14,335,777)	(3,692,458)
Proceeds from sale/maturity of investment securities	<u>4,166,774</u>	<u>3,576,000</u>
Net cash used in investing activities	<u>(10,345,016)</u>	<u>(330,958)</u>
Cash Flows from Financing Activities:		
Dividends on common stock	(244,635)	—
Net cash used in financing activities	<u>(244,635)</u>	<u>—</u>
(Decrease) increase in cash and cash equivalents	(3,525,214)	480,120
Cash and cash equivalents, beginning of period	8,104,060	6,802,712
Cash and cash equivalents, end of period	<u>\$ 4,578,846</u>	<u>\$ 7,282,832</u>
Supplemental Schedule of Cash Flow Information:		
Income taxes paid	\$ 561,500	\$ 120,000

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 Espay 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. 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, 2022. Certain reclassifications may have been made to the prior year financial statements to conform to the current year presentation.

Note 2. Investment Securities

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, 2022** **March 31, 2023** and June 30, 2022 because of the immediate or short-term maturity of these financial instruments.

Investment securities at **December 31, 2022** **March 31, 2023** consists of certificates of deposit, municipal bonds and U.S. treasury bills and at June 30, 2022 consisted of certificates of deposit and municipal bonds. 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, 2022** **March 31, 2023** and June 30, 2022 are as follows:

	Gross				Gross			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2022								
March 31, 2023								
Certificates of deposit	\$ 9,700,000	\$ —	\$ —	\$ 9,700,000	\$ 13,195,000	\$ —	\$ —	\$ 13,195,000
Municipal bonds	\$ 72,225	\$ —	\$ (3,755)	\$ 68,470	\$ 260,475	\$ —	\$ (3,752)	\$ 256,723
U.S. Treasury Bills	\$ 296,439	\$ 2,468	\$ —	\$ 298,907	\$ 424,340	\$ 3,274	\$ —	\$ 427,614
Total investment securities	\$ 10,068,664	\$ 2,468	\$ (3,755)	\$ 10,067,377	\$ 13,879,815	\$ 3,274	\$ (3,752)	\$ 13,879,337
June 30, 2022								
Certificates of deposit	\$ 3,639,000	\$ —	\$ —	\$ 3,639,000	\$ 3,639,000	\$ —	\$ —	\$ 3,639,000
Municipal bonds	\$ 72,225	\$ —	\$ (2,446)	\$ 69,779	\$ 72,225	\$ —	\$ (2,446)	\$ 69,779
Total investment securities	\$ 3,711,225	\$ —	\$ (2,446)	\$ 3,708,779	\$ 3,711,225	\$ —	\$ (2,446)	\$ 3,708,779

Index

The portfolio is diversified and highly liquid and primarily consists of investment grade fixed income instruments. At December 31, 2022 March 31, 2023, 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, 2022 March 31, 2023 and June 30, 2022, the remaining contractual maturities of available-for-sale debt securities were as follows:

	Years to Maturity			Years to Maturity		
	Less than One Year	One to Five Years	Total	Less than One Year	One to Five Years	Total
<u>December 31, 2022</u>						
<u>March 31, 2023</u>						
Available-for-sale	\$ 9,998,908	\$ 68,469	\$ 10,067,377	\$ 13,622,615	\$ 256,722	\$ 13,879,337
<u>June 30, 2022</u>						
Available-for-sale	\$ 3,639,000	\$ 69,779	\$ 3,708,779	\$ 3,639,000	\$ 69,779	\$ 3,708,779

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 300,923 164,231 shares of our common stock for the three and six nine months ended December 31, 2022 March 31, 2023 and 316,912 264,978 shares for the three and six nine months ended December 31 March 31, 2022, 2021, 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.

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, 2022 March 31, 2023 and 2021 2022 was \$41,918 \$61,575 and \$41,791 \$39,699, 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, 2022 March 31, 2023 and 2021, 2022, was \$3,877 \$8,580 and \$8,757 \$6,582, respectively. The deferred tax benefit related to the NQSOs as of December 31, 2022 March 31, 2023 and 2021 2022 was approximately \$814 \$1,802 and \$1,839 \$1,382, respectively. Total stock-based compensation expense recognized in the statements of comprehensive income for the six-month nine-month periods ended December 31, 2022 March 31, 2023 and 2021, 2022, was \$103,177 \$164,752 and \$94,567 \$134,266, respectively, before income taxes. The amount of this stock-based compensation expense related to NQSOs for the six-month nine-month periods ended December 31, 2022 March 31, 2023 and 2021, 2022, was \$13,481 \$22,061 and \$16,123 \$22,705, respectively. The deferred tax benefit related to the NQSOs as of December 31, 2022 March 31, 2023 and 2021, 2022 was approximately \$2,831 \$4,633 and \$3,386 \$4,768, respectively. The remaining stock option expense in each year related to incentive stock options ("ISOs") which are not deductible by the corporation when exercised, assuming a qualifying disposition and as such no deferred tax benefit was established related to these amounts.

As of December 31, 2022 March 31, 2023, there was approximately \$262,081 \$210,042 of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over the next 1.75 2 years, of which \$218,533 \$175,074 relates to ISOs and \$43,548 \$34,968 relates to NQSOs. The total deferred tax benefit related to these awards is expected to be \$9,145 \$7,343.

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, 2022** **March 31, 2023**, options covering **379,104** **381,104** shares have been granted, of which **250,173** **245,381** are outstanding, and options covering **128,931** **135,723** shares have been cancelled. As of **December 31, 2022** **March 31, 2023**, options covering **149,827** **154,619** shares remain available for grant, after factoring in the cancelled options 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, 2022** **March 31, 2023**, 50,750 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** **nine** months ended **December 31, 2022** **March 31, 2023** and **2021**.

	December 31, 2022	December 31, 2021	March 31, 2023	March 31, 2022
Company's expected volatility	27.10%	25.56%	27.16%	25.56%
Risk-free interest rate	2.66%	0.93%	2.69%	0.93%
Expected term	5.4 yrs	5.4 yrs	5.4 yrs	5.4 yrs
Weighted average fair value per share of options granted during the period	\$4.11	\$3.72	\$4.16	\$3.72

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** **nine** months ended **December 31, 2022** **March 31, 2023**:

	Employee Stock Options Plan				Employee Stock Options Plan			
	Number of Shares Subject to Option	Weighted Average			Number of Shares Subject to Option	Weighted Average		
		Weighted Average Price	Remaining Contractual Term	Aggregate Intrinsic Value		Weighted Average Price	Remaining Contractual Term	Aggregate Intrinsic Value
		Exercise Price	Term	Value		Exercise Price	Contractual	Intrinsic
Balance at July 1, 2022	246,273	\$ 20.89	6.73		246,273	\$ 20.89	6.73	
Granted	71,200	\$ 13.61	9.59		73,200	\$ 13.71	9.36	
Exercised	—	—	—		—	—	—	
Forfeited or expired	(16,550)	\$ 19.83	—		(23,342)	\$ 20.46	—	
Outstanding at December 31, 2022	300,923	\$ 19.23	6.95	\$ 42,169				
Vested or expected to vest at December 31, 2022	276,789	\$ 19.67	6.76	\$ 34,514				
Exercisable at December 31, 2022	171,023	\$ 23.09	5.30	\$ 0				
Outstanding at March 31, 2023					296,131	\$ 19.15	6.73	\$ 874,322
Vested or expected to vest at March 31, 2023					271,591	\$ 19.60	6.53	\$ 726,483
Exercisable at March 31, 2023					164,231	\$ 23.13	4.99	\$ 74,965

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, 2022** **March 31, 2023** 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, 2022** **March 31, 2023**. This amount changes based on the fair market value of the Company's common stock. The intrinsic value of options exercised during the **six** **nine** months ended **December 31, 2022** **March 31, 2023** and **2021** **2022** was \$0, resulting from no option exercise activity during those periods.

Index

The following table summarizes changes in non-vested stock options during the **six nine** months ended **December 31, 2022** **March 31, 2023**:

	Weighted Number of Shares Subject to Option	Average Grant Date Fair Value (per Option)	Weighted Number of Shares Subject to Option	Average Grant Date Fair Value (per Option)
Non-vested at July 1, 2022	104,175	\$ 2.92	104,175	\$ 2.92
Granted	71,200	\$ 4.11	73,200	\$ 4.16
Vested	(36,375)	\$ 1.59	(34,075)	\$ 1.59
Forfeited or expired	(9,100)	\$ 3.01	(11,400)	\$ 2.73
Non-vested at December 31, 2022	129,900	\$ 3.94		
Non-vested at March 31, 2023			131,900	\$ 3.97

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, 2022** **March 31, 2023** and June 30, 2022. 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 such pending matters 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 will be conducted on Espey's property in Saratoga Springs, NY, with completion slated for 2024. The Company expects to be paid within 30 days after the submission of invoices, but will not be paid for expenses incurred in excess of the specified milestone payment limits.

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 nine** months ended **December 31, 2022** **March 31, 2023** based on units delivered was **\$6,757,440** **\$6,957,142** and **\$13,717,229** **\$20,674,371**, respectively, compared to **\$6,100,228** **\$7,291,109** and **\$12,592,464** **\$19,883,573** for the same period in fiscal year 2022. Total revenue recognized for the three and **six nine** months ended **December 31, 2022** **March 31, 2023** based on milestones achieved was **\$2,046,669** **\$2,852,474** and **\$3,722,675**, **\$6,575,149**, respectively, compared to **\$1,357,822** **\$1,328,940** and **\$2,411,018** **\$3,739,958** for the same period in fiscal year 2022.

[Index](#)

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, 2022****March 31, 2023**. Our payment terms are generally 30-60 days.

Index

Contract liabilities were \$5,286,073 \$6,566,188 and \$3,384,474 as of December 31, 2022 March 31, 2023 and June 30, 2022, 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 \$1,826,797 \$3,051,528 for the six nine months ended December 31, 2022 March 31, 2023. 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, 2022 March 31, 2023 totaling approximately \$78.3 million \$82.1 million is projected, based on expected due dates, to be recognized in the following fiscal years: 24% 11% in 2023; 49% 47% in 2024; 13% 27% in 2025, and 14% 15% thereafter.

Note 7. Recently Issued Accounting Standards

Recent Accounting Pronouncements Adopted

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." ASU 2019-12 amends ASC 740 to simplify the accounting for income taxes by removing certain exceptions for investments, intraperiod allocations and interim calculations, and adding guidance to reduce complexity in the accounting standard under the FASB's simplification initiative. ASU 2019-12 is effective for public entities for fiscal years beginning after December 15, 2020. Upon adoption, the amendments in ASU 2019-12 should be applied on a prospective basis to all periods presented. The Company adopted the new guidance under ASU 2019-12 in the first quarter of fiscal year 2022 and removed the exception for intraperiod allocations from its interim period tax provision calculation, accordingly. The removal of the exception for intraperiod allocations did not have a material impact on the Company.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected, with further clarifications made more recently. For trade receivables, loans and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. Credit losses relating to available-for-sale debt securities are required to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. ASU 2016-13 is effective for public entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Upon adoption, the amendments in ASU 2016-13 should be applied on a prospective basis to all periods presented relating to available-for-sale debt securities. For all other financial instruments the Company upon adoption will apply the amendments on a modified-retrospective approach. The Company is expected to adopt the new guidance under ASU 2016-13 in the first quarter of fiscal year 2024, beginning July 1, 2023, and is currently evaluating the impact of the adoption on its financial statements.

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 \$76,549 \$100,555 and \$83,812 \$77,045 for the three-month periods ended December 31, 2022 March 31, 2023 and 2021, 2022, respectively. ESOP compensation expense was \$155,477 \$256,032 and \$168,318 \$245,362 for the six-month nine-month periods ended December 31, 2022 March 31, 2023 and 2021, 2022, respectively.

Index

The ESOP shares as of December 31, 2022 March 31, 2023 and 2021 2022 were as follows:

	December 31, 2022	December 31, 2021	March 31, 2023	March 31, 2022
Allocated shares	465,248	478,935	462,311	472,955
Committed-to-be-released shares	11,244	11,568	16,866	17,352
Unreleased shares	245,049	267,861	239,427	262,077
 Total shares held by the ESOP	 721,541	 758,364	 718,604	 752,384
 Fair value of unreleased shares	 \$ 3,479,696	 \$ 3,806,305	 \$ 4,848,397	 \$ 3,642,870

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** nine months ended December 31, 2022 March 31, 2023 and 2021 2022, 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 provisions of the Plan. Share distributions from the ESOP during the **six** nine months ended December 31, 2022 March 31, 2023 and 2021 2022 totaled 30,843 33,780 and 8,285 14,265 shares, respectively.

Note 9. Subsequent Events

The Company has evaluated subsequent events through the filing of this Form 10-Q, and has determined that there have been no events that have occurred that would require adjustments to our disclosures in the financial statements except for the following:

The Company was awarded \$7.4 million in funding 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 will be conducted on Espey's property in Saratoga Springs, NY, with completion slated for 2024. The Company expects to be paid within 30 days after the submission of invoices, but will not be paid for expenses incurred in excess of the specified milestone payment limits. The Company expects to have a cash outlay to satisfy income tax obligations arising from the value of the award.

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 highly reliable products for use in military and severe environment applications. Design, manufacturing, and testing is performed in our 150,000+ square foot facility located at 233 Ballston Ave, Saratoga Springs, New York. Espey is classified as a "smaller reporting company" for purposes of the reporting requirements under the Securities Exchange Act of 1934, as amended. Espey's common stock is publicly-traded on the NYSE 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 ISO 9001:2015 and AS9100:2016 certified. Our primary products are power supplies, power converters, filters, power transformers, magnetic components, power distribution equipment, UPS systems, antennas and high power radar systems. The applications of these products include AC and DC locomotives, shipboard power, shipboard radar, airborne power, ground-based radar, and ground mobile power.

Espey services include design and development to specification, build to print, design services, design studies, environmental testing services, metal fabrication, painting services, and development of automatic testing equipment. Espey 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.

Index

We continue to place an emphasis on securing "build to print" opportunities, which will allow production work to go directly to the manufacturing floor, limiting the impact on our engineering staff. This allows us to keep our manufacturing team busy while the products are being developed in-house for production.

The total backlog at December 31, 2022 March 31, 2023 was approximately \$78.3 million \$82.1 million, which included approximately \$64.2 million \$66.3 million from six significant customers, compared to \$70.1 million \$76.2 million at December 31, 2021 March 31, 2022, which included \$45.8 million \$47.5 million from four significant customers. The Company's total backlog represents the estimated remaining sales value of work to be performed under firm contracts. The backlog at December 31, 2022 March 31, 2023 is fully funded except for \$32 thousand, representing one firm multi-year order from a single customer for which funding has not yet been appropriated by Congress and/or the customer has not funded the program. 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. The unfunded backlog at December 31, 2021 March 31, 2022 was approximately \$0.4 million and represented two firm multi-year orders from a single customer for which funding had not yet been appropriated by Congress and/or funded by our customer. 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 as information is known and estimable.

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 schedule delays and increased raw material costs could negatively impact the timing of the conversion of backlog into sales, or the profitability of such sales. We continue to experience technical and schedule delays with certain major development programs. The issues causing the delays are being resolved as soon as possible and we continue to work with our customers on newly arising delays. Engineering programs in both the funded and unfunded portions of the current backlog aggregate \$7.5 million \$6.9 million.

The growth and continuing demand in the power electronics industry across multiple manufacturing sectors, coupled with resulting supply chain disruptions from the effects of global events, has created volatility and unpredictability in the availability of certain electronic components and, in some cases, continues to create industry shortages. These shortages have and will likely continue to impact our ability to support our customer's schedule demands, as lead times for these components have, in some instances, increased from readily available to waiting times of nearly a year or more. In addition, we continue to incur delays in material deliveries from some company suppliers due to the COVID-19 pandemic. We continue to work with our customers to mitigate any adverse impact upon our ability to service their requirements. These issues, if they persist, may cause us to miss projected delivery dates.

Management expects revenues in fiscal year 2023 to be higher than revenues during fiscal year 2022 and expects net income per share to be higher in fiscal 2023 as compared to the net income per share realized during fiscal year 2022. These expectations are driven by orders already in our sales backlog. Consistent quarter to quarter financial Sales fluctuations may occur during comparable fiscal periods as the direct result of product mix, directly influenced by the specific contractual terms of those firm orders placed including contract value, scope of work, and contract delivery schedules. Financial performance will remain a challenge as we navigate a current difficult environment of inflation and parts shortages.

Effects from global events and the resulting supply chain disruptions continue to place pressure on the cost of raw materials, freight, utility, labor and other production and administrative costs. These inflationary cost challenges are expected to continue to have a negative impact on operating income in fiscal year 2023. Volatile raw material indexes and shortages have led to wide-spread vendor price increases. For our executed fixed-price contracts, we will either singularly or in combination, continue to 1) be required to absorb the increased costs 2) mitigate cost increases through the identification of additional supply chain buying strategies or 3) submit for price remediation assistance from our customers. customers which is not guaranteed nor recognized by the Company until awarded and definitized. To minimize exposure on future fixed-price contracts, we continue to incorporate inflationary increases to product quotations provided to our customers, some of which have resulted in significant price increases. As additional mitigation steps, we have, in many instances, reduced the time in which certain product quotations remain valid and have also extended lead times for product deliveries. We continue to work with our customers to mitigate any adverse impact upon our ability to service their requirements.

The Company currently expects new orders in fiscal 2023 to approximate the \$43.2 million in new orders received in fiscal year 2022. As market factors including competition and product costs impact gross profit margins, management will continue to evaluate our sales strategy, employment levels, and facility costs.

Index

New orders received in the first **six** **nine** months of fiscal year 2023 were approximately **\$19 million** **\$32.6 million** as compared to approximately **\$19.5 million** **\$34.1 million** new orders received in the first **six** **nine** months of fiscal 2022. It is presently anticipated that a minimum of **\$18.6 million** **\$8.7 million** of orders comprising the **December 31, 2022** **March 31, 2023** backlog will be filled during the fiscal year ending June 30, 2023 subject, however, to the impact of the factors identified above. The minimum of **\$18.6 million** **\$8.7 million** does not include any shipments, which may be made against orders subsequently received during the fiscal year ending June 30, 2023.

In addition to the backlog, the Company currently has outstanding opportunities representing approximately **\$105 million** **\$88 million** in the aggregate as of **February 6, 2023** **May 8, 2023** for both repeat and new programs. The outstanding quotations encompass various new and previously manufactured power supplies, transformers, and subassemblies. However, there can be no assurance that the Company will acquire any 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.

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** **two** significant customers represented **69%** **60%** of the Company's total sales for the three-month period ended **December 31, 2022** **March 31, 2023**. Net sales to four significant customers represented **59%** **61%** of the Company's total sales for the three-month period ended **December 31, 2021** **March 31, 2022**. Net sales to **five** **four** significant customers represented **83%** **73%** of the Company's total sales for the **six-month** **nine-month** period ended **December 31, 2022** **March 31, 2023**. Net sales to **five** **four** significant customers represented **67%** **55%** of the Company's total sales for the **six-month** **nine-month** period ended **December 31, 2021** **March 31, 2022**. 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 net sales is generated from contracts with industrial manufacturers and defense companies, the Department of Defense, other agencies of the government of the United States and foreign governments for the design, development and/or manufacture of products. 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.

[Index](#)

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 and reduce inventory balances 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.

Results of Operations

Net sales for the three months ended December 31, 2022 March 31, 2023 and 2021 2022 were \$8,804,109 \$9,809,616 and \$7,458,050, \$8,620,049, respectively, an 18.0% a 13.8% increase. Net sales for the six nine months ended December 31, 2022 March 31, 2023 and 2021 2022 were \$17,439,904 \$27,249,520 and \$15,003,482, \$23,623,531, respectively, a 16.2% 15.3% increase. In general, sales fluctuations within product categories will may occur during a comparable fiscal period periods as the direct result of product mix, directly influenced by the duration of specific programs and the contractual terms of those firm orders placed for product and services under those programs including contract value, scope of work, and duration. Deliverables within firm contracts are often subject to contract delivery schedules which also contributes to schedules. Overall, for the three and nine months ended March 31, 2023, sales fluctuations between comparable periods. Internal and external constraints, at times, impact our ability to ship. In general, the Company continues to experience long lead times and supply chain delays which have increased as a direct impact on result of an overall higher sales backlog generated from strong new order bookings over the timing of shipments for certain programs and may result in sales fluctuations recorded between periods, last several years.

For the three months ended December 31, 2022 March 31, 2023, sales increased primarily due to an increase in shipments on specific three build to print contracts which had no or fewer sales in the comparable period last year. One of these contracts is a new shorter-duration program in which shipments commenced in the current quarter. Another contract is a large longer-duration build to print contract in which the company designed a magnetics component for the order, all of which is now in the early phases of production. In addition, sales increased in the current quarter on a large contract for a power supply previously designed by the Company which had no comparable sales in the prior period. These increases were offset, in part, by decreases in sales, between the comparable periods, related to contracts which had reached contract completion, timing of contractual delivery schedules or, to a lesser degree, orders impeded by longer material lead times.

Sales increased in the nine months ended March 31, 2023, primarily due to an increase in shipments on contracts related to a family of power distribution transformers for a single customer when compared to sales recognized in the prior year. In addition, sales increased in the current quarter on several new and repeat contracts which had no comparable sales in the same period last year. These increases were offset, in part, by a decrease in sales on several power supply programs, two of which had no sales in the current year when compared to the same period last year and the other which had lower sales in the current period, a result of ongoing supply chain material delays and long component lead times. Sales increased in the six months ended December 31, 2022, primarily due to an increase in shipments on specific contracts related to a family of power distribution transformers for a single customer when compared to sales recognized in the prior year. In addition, sales increased in the current quarter on multiple new and repeat build to print contracts which had no or significantly fewer comparable sales in the same period last year. One such In addition, sales increased in the current year from a large contract was for a new engineering and production program. power supply previously designed by the Company which had no comparable sales in the prior period. These increases were offset, in part, by a decrease decreases in sales, on between the comparable periods, related to several power supply programs, two of which had no or minimal sales in the current year when compared to the same period last year and the other which had lower sales in the current period, a result of ongoing supply chain material delays and long component lead times. Sales in the six month period also declined on a large magnetic engineering and production contract and several build to print contracts due to contract completion, timing of orders contractual delivery schedules and customer delivery dates, certain programs impeded by longer material lead times.

Gross profits for the three months ended December 31, 2022 March 31, 2023 and 2021 2022 were \$2,260,722 \$1,973,429 and \$1,206,817 \$1,734,880, respectively. Gross profit as a percentage of sales was approximately 25.7% 20.1% and 16.2% 20.1%, for the same periods, respectively. Gross profits for the six nine months ended December 31, 2022 March 31, 2023 and 2021 2022 were \$4,072,864 \$6,046,293 and \$2,559,915 \$4,294,795, respectively. Gross profit as a percentage of sales was approximately 23.4% 22.2% and 17.1% 18.2% for the same periods, respectively. 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.

The increase in gross profit for the three months ended December 31, 2022 March 31, 2023 when compared to the same period last year resulted primarily from an increase in sales and the product mix comprising those sales. Gross profit in the current quarter was favorably impacted by sales on certain build to print shipments. In addition, gross profit was favorably impacted in the current quarter from improved margins on a specific large fixed priced magnetics engineering and production contract which was negatively impacted in the comparable prior year by unforeseen significant increases in material costs, a direct result of inflationary and volatile pricing for certain raw material and components. The current quarter gross profit was negatively impacted by significant costs incurred on a certain fixed-priced engineering design contract for a power supply due to the ongoing unforeseen complexity of the design and the identification of additional costs required to screen a large volume of parts due to the unavailability of mil-spec rated parts in the marketplace, a result of part obsolescence or exceptionally long lead times. The Company has submitted a request for an equitable price adjustment due to these rising costs for this particular program which is not guaranteed and will not be recognized by the Company unless the request is agreed to and the terms formalized.

The increase in gross profit for the nine months ended March 31, 2023 when compared to the same period last year resulted from an increase in sales and a higher overall gross profit percentage comprising those shipments which was influenced by product mix. In the current period, gross profit was favorably impacted from higher sales and improved margins on a specific magnetics contract and a certain build to print contract, contracts, resulting from manufacturing improvements. The prior year's current period gross profit was negatively impacted by certain programs which had higher sales in the prior year and contributed less to gross profit as the result of cost overruns when compared to the same period this year. These significant costs overruns included labor from both production and engineering efforts made and the impact of inflationary pricing on materials for certain fixed-price contracts. In addition, specific to the prior year, gross profit was negatively impacted by the expensing of remaining development costs formerly capitalized in inventory incurred on a specific engineering design program in which our customer had delayed unit qualification testing and for which production units were not expected to be manufactured in the near term. The increase in gross profit for the six months ended December 31, 2022 when compared to the same period last year resulted from an increase in sales and a higher overall gross profit percentage comprising those shipments which was influenced by product mix. In the current period, gross profit was favorably impacted from higher sales and improved margins on a specific magnetics contract and a build to print contract, resulting from manufacturing improvements. Conversely, current year gross profit was negatively impacted by cost overruns on a specific certain fixed-priced engineering design contract for a power supply due to the ongoing unforeseen complexity of the design. In addition, sales on design and the identification of additional costs required to screen a certain build to print contract did not contribute to gross profit large volume of parts due to production overruns caused by test failures, the unavailability of mil-spec rated parts in the marketplace due to part obsolescence or exceptionally long lead times. The prior year gross profit was negatively impacted by certain programs which had higher sales in the prior year and contributed less to gross profit as the result of cost overruns when compared to the same period this year. These cost overruns included labor from both production and engineering efforts made and the impact of inflationary pricing on materials for certain fixed-price contracts. In addition, to a lesser extent, specific to the prior year, gross profit was negatively impacted by the expensing of remaining development costs formerly capitalized in inventory on a specific engineering design program in which our customer had delayed unit qualification testing and for which production units were not expected to be manufactured in the near term.

Selling, general and administrative expenses were \$874,931 \$1,014,739 for the three months ended December 31, 2022 March 31, 2023, a decrease an increase of \$311,237 \$81,014, compared to the three months ended December 31, 2021 March 31, 2022. Selling, general and administrative expenses were \$1,713,961 \$2,728,700 for the six nine months ended December 31, 2022 March 31, 2023, a decrease of \$467,029 \$386,015 compared to the six nine months ended December 31, 2021 March 31, 2022. The higher costs increase in spending for the three and six months ended December 31, 2021 related March 31, 2023 as compared to the same period in 2022 relates primarily to one-time expenses selling costs for an outside sales representative related to specific programs in addition to an increase in costs incurred for conferences and training expenditures and travel expenses. Lower costs were incurred for the nine months ended March 31, 2023, comparably, as the prior year spending included specific non-recurring costs attributed to a change in senior management. In addition, fewer costs were incurred in the current period when compared to the prior period resulting from a decrease in board of directors fees resulting from a reduction of two non-employee directors a decrease in outside selling costs related to outside sales representatives, and lower professional recruiting costs incurred. The decreases in the current period were offset, in part, by increases in conference and training expenditures incurred.

Other income for the three months ended December 31, 2022 March 31, 2023 and 2021 2022 was \$73,542 \$145,810 and \$11,821 \$5,661, respectively. Other income for the six nine months ended December 31, 2022 March 31, 2023 and 2021 2022 was \$86,116 \$231,926 and \$31,388 \$37,049, respectively. The increase for the three and six nine months ended is primarily due to the increase in interest income resulting from an increase in investment securities and an increase in interest rates, offset, in part by a decrease in other income primarily from scrap sales rates. Interest income is a function of the level of investments and investment strategies that generally tend to be conservative.

[Index](#)

The Company's effective tax rate for the three and **six** **nine** months ended **December 31, 2022** **March 31, 2023** was approximately 21.5% and **21.7%** **21.6%** respectively, compared to **34.7%** **18.0%** and **20.2%** **18.8%** for the three and **six** **nine** months ended **December 31, 2021** **March 31, 2022**. The effective tax rate in fiscal 2023 is greater than the statutory tax rate mainly due to the permanent difference for incentive stock option expense recorded for book purposes which is not deductible for tax purposes. In the current **period**, **year**, there was no benefit received from ESOP dividends paid on allocated shares due to the suspension of the company **dividend**, **dividend** thru February 2023. The effective tax rate in fiscal 2022 was less than the statutory tax rate mainly from the benefit derived from the ESOP dividends paid on allocated shares. **shares** prior to the **dividend suspension**. The effective tax rate was lower for **in** the **three** and **nine** month periods ended **December 31, 2022** when compared to **March 31, 2023** was higher than the **same period** in **2021**. The **prior year** rate was unfavorably impacted from non-qualified stock forfeitures. The effective tax rate was as the direct result of a higher **for** **income before taxes** in the **six** **months** ended **December 31, 2022** when compared to the **same period** **current fiscal year** offset, in **2021** primarily due to no part, by a decreased benefit received derived from ESOP dividends paid due to the suspension of the company **dividend**, **on** allocated shares.

Net income for the three months ended **December 31, 2022** **March 31, 2023**, was **\$1,146,042** **\$867,288** or **\$0.47** **\$0.35** per share, basic and diluted, compared to net income of **\$21,201** **\$661,359** or **\$0.01** **\$0.27** per share, basic and diluted, for the three months ended **December 31, 2021** **March 31, 2022**. Net income for the **six** **nine** months ended **December 31, 2022** **March 31, 2023** was **\$1,914,308** **\$2,781,596** or **\$0.78** **\$1.13** per share, basic and diluted, compared to **\$327,262** **\$988,621** or **\$0.14** **\$0.41** per share, basic and diluted, for the **six** **nine** months ended **December 31, 2021** **March 31, 2022**. The increase in net income in the three and six months ended **March 31, 2023** resulted primarily from the increase in gross profit and an 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. The increase in net income in the nine months ended **March 31, 2023** resulted primarily from the increase in gross profit, an increase in interest income, and a decrease in selling, general and administrative expenses, **an increase in interest income**, offset in part, by 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, 2022 March 31, 2023 and 2021, 2022. The existing line of credit was extended and expires February 28, 2023 February 28, 2024. It is our expectation the line will be renewed.

The Company's working capital as of December 31, 2022 March 31, 2023 and 2021 2022 was approximately \$31.6 million \$32.3 million and \$28.1 million \$28.7 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 nine months ended December 31, 2022 March 31, 2023 and 2021, 2022, the Company did not repurchase any shares held by the ESOP. Under existing authorizations from the Company's Board of Directors, as of December 31, 2022 March 31, 2023, 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,		Nine Months Ended March 31,	
	2022	2021	2023	2022
Net cash provided by operating activities	\$ 4,683,450	\$ 277,858	\$ 7,064,437	\$ 811,078
Net cash used in investing activities	(6,459,068)	(62,288)	(10,345,016)	(330,958)
Net cash used in financing activities			(244,635)	—

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 net income, an increase in cash collected from trade receivables, an increase in cash collected from customer advances, and an increase in accounts payable when compared to the comparable period last year offset, in part, by an increase in prepaid expenses and other current assets between comparable periods. Net cash used in investing activities increased in the six nine months ended December 31, 2022 March 31, 2023 as compared to the same period in 2021 2022 primarily due to an increase in investment securities when compared to the same period last year. Cash used in financing activities for the nine months ended March 31, 2023 relates to dividend payments on common stock. The Company currently believes that the cash flow generated from operations and when necessary, from cash and cash equivalents will be sufficient to meet its long-term funding requirements for the foreseeable future.

During the six nine months ended December 31, 2022 March 31, 2023 and 2021, 2022, the Company expended \$103,885 \$178,513 and \$97,288, \$216,500, respectively, for plant improvements and new equipment. The Company has budgeted approximately \$500,000 for new equipment and plant improvements in fiscal year 2023, 2023 with the expected actual spending to fall below this amount due to timing and lead time of certain procurements. The Company expects additional cash outlay in fiscal 2023 associated with the facility and capital equipment upgrades discussed funded under an award received in Note 9. Subsequent Events. Management anticipates that the funds required will be available from second quarter of the current operations, fiscal year.

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 **the COVID-19 pandemic** **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

We are party to various litigation matters and claims arising from time to time in the ordinary course of business. While the results of such matters cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows. Currently, there are no matters pending.

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

- (a) Securities Sold
- (c) Securities Repurchased

As of **December 31, 2022** **March 31, 2023** the Company can repurchase up to \$783,460 of its common stock pursuant to an ongoing plan authorized by the Board of Directors. During the quarter ended **December 31, 2022** **March 31, 2023** 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](#)

SIGNATURES

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 13, 2023 May 15, 2023

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 13, 2023 May 15, 2023

/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 13, 2023 May 15, 2023

/s/ Katrina Sparano

Katrina Sparano
Principal Financial Officer

24

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, 2022 March 31, 2023 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 13, 2023 May 15, 2023

/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, 2022** **March 31, 2023** 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 13, 2023** **May 15, 2023**

/s/ Katrina Sparano

Katrina Sparano
Principal Financial Officer

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All rights reserved. Patents Pending.