ESPEY MFG & ELECTRONICS CORP
Form 10-K
September 22, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10 - K

|X| Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 2004

|_| Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

For the transition period from to

Commission File No. 1-4383

Espey Mfg. & Electronics Corp.
(Exact name of registrant as specified in its charter)

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

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

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

Title of Each class	Name of Each Exchange on Which Registered
Common Stock $.33-1/3 par value	American Stock Exchange
Common Stock Purchase Rights	American Stock Exchange

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

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

|X| Yes |_| No

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

|X| Yes |_| No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

|_| Yes |X| No

The aggregate market value of the voting stock held by non-affiliates of the registrant was $23,184,021 based upon the closing sale price of $22.85 on the American Stock Exchange on June 30, 2004.

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

Class	Outstanding at September 14, 2001
Common stock, $.33-1/3 par value	1,010,804 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrants definitive proxy statement relating to the 2004 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10 and 14 on Form 10-K as indicated herein.

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PART I

Item 1. Business.

General

Espey Mfg. & Electronics Corp. (the "Company") located in Saratoga Springs, New York, is engaged principally in the development, design, production and sale of specialized electronic power supplies, a wide variety of transformers and other types of iron-core components, and electronic system components. In some cases, the Company manufactures such products in accordance with pre-developed mechanical and electrical requirements ("build to print"). In other cases, the Company is responsible for both the overall design and manufacture of the product. The Company does not generally manufacture standardized components. The Company operates a one-segment business and was incorporated in 1928.

The electronic power supplies and components manufactured by the Company find application principally in (i) shipboard and land based radar, (ii) locomotives, (iii) aircraft, (iv) short and medium range communication systems, (v) navigation systems and (vi) land based military vehicles.

The Company's iron-core components include (i) transformers of the audio, power and pulse types, (ii) magnetic amplifiers and (iii) audio filters. The electronic system components manufactured by the Company include antenna systems and high power radar transmitters. These system components utilize the Company's own electronic power supplies, transformers and other iron-core components and mechanical assemblies.

In the fiscal year ended June 30, 2004 and 2003, the Company's total sales were $22,507,199 and $19,773,411, respectively. Sales to two domestic customers and one foreign customer accounted for 22%, 16% and 18% and 25%, 19% and 12%, of total sales in 2004 and 2003, respectively. Sales to two domestic customers and one foreign customer accounted for 26%, 21% and 14% respectively, of total sales in 2002.

Export sales in 2004, 2003 and 2002 were approximately $9,800,000, $7,100,000, and $6,600,000, respectively.

Sources of Raw Materials

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

Sales Backlog

At September 14, 2004, the Company's backlog was approximately $14.0 million. The total backlog at June 30, 2004 was approximately $15.4 million as compared to approximately $21.4 million at June 30, 2003. The Company's backlog is discussed in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in Item 7 below.

It is presently anticipated that a minimum of $15.2 million of orders comprising the June 30, 2004 backlog will be filled during the fiscal year ending June 30, 2005. The minimum of $15.2 million does not include any shipments, which may be made against orders subsequently received during the fiscal year ending June 30, 2005. The estimate of the June 30, 2004 backlog to be shipped in fiscal 2005 is subject to future events, which may cause the amount of the backlog actually shipped to differ from such estimate.

Marketing and Competition

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

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

The Company's business is not considered to be of seasonal nature.

Research and Development

The Company's expenditures for research and development were approximately $150,000, $100,000, and $335,000, in 2004, 2003 and 2002, respectively. Some of the Company's engineers and technicians spend varying degrees of time on either development of new products or improvement of existing products.

Employees

The Company had 181 employees as of September 14, 2004. Some of these employees are represented by the International Brotherhood of Electrical Workers Local #1799. The current collective bargaining agreement expires on June 30, 2008. The contract includes a 3.75% annual pay increase in the fiscal period 2004 through 2007, and no increase for 2008. Relations with the Union are considered good. Union membership at September 14, 2004 was 78 people.

Government Regulations

Compliance with federal, state and local provisions that have been enacted or adopted to regulate the discharge of materials into the environment, or otherwise relating to the protection of the environment, did not in fiscal 2004, and the Company believes will not in fiscal year 2005 have a material effect upon the capital expenditures, net income, or competitive position of the Company.

Item 2. Properties

The Company's manufacturing and engineering facilities are at its plant in Saratoga Springs, New York.

The Saratoga Springs plant, which the Company owns, consists of various adjoining one-story buildings. The plant has a sprinkler system throughout and contains approximately 151,000 square feet of floor space, of which 90,000 is used for manufacturing, 24,000 for engineering, 33,000 for shipping and climatically secured storage, and 4,000 for offices. The offices, engineering and some manufacturing areas are air-conditioned. In addition to assembly and wiring operations, the plant includes facilities for varnishing, potting, plating, impregnation and spray-painting operations. The manufacturing operation also includes a complete machine shop, with welding and sheet metal fabrication facilities adequate for substantially all of the Company's current operations. Besides normal test equipment, the Company maintains a sophisticated on-site environmental test facility. In addition to meeting all of the Company's in-house needs, the plating, machine shop and environmental facilities are available to other companies on a contract basis.

Item 3. Legal Proceedings.

On June 3, 2004, the Company was informed by the American Stock Exchange, Inc. ("AMEX") that its review of events that had occurred at the Company's annual meeting on November 13, 2003 had been completed and that no further action was warranted.

At the annual meeting, a vote was taken on a shareholder proposal, to remove certain incumbent directors, that had not been included in the Company's proxy material sent to shareholders in advance of the meeting. AMEX informed the Company in January 2004 that it would be conducting a review of such incident. The Board of Directors engaged special counsel to investigate whether any directors or officers of the Company had engaged in misconduct in connection with the shareholder proposal presented at the meeting. Special counsel subsequently reported to the Board of Directors that no such finding had been made, and that action taken on the shareholder proposal presented at the annual meeting was inappropriate.

In April 2004, the Board of Directors adopted various corporate governance modifications, including the creation of a nominating committee comprised of independent directors and various other corporate by-law amendments. The results of special counsel's reports and the corporate governance modifications were supplied to AMEX incidental to its review.

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

None

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

Price Range of Common Stock

The table below shows the range of high and low prices for the Company's common stock on the American Stock Exchange, the principal market for trading in the common stock, for each quarterly period for the last two fiscal years ended June 30:

2004	High	Low
First Quarter	23.00	17.60
Second Quarter	27.35	22.99
Third Quarter	26.00	24.60
Fourth Quarter	27.14	21.00

2003	High	Low
First Quarter	20.50	18.48
Second Quarter	19.75	18.65
Third Quarter	20.75	17.55
Fourth Quarter	18.49	17.70

Holders

The approximate number of holders of record of the common stock was 141 on September 14, 2004 according to records of the Company's transfer agent. Included in this number are shares held in "nominee" or "street" name and, therefore, the number of beneficial owners of the common stock is believed to be substantially in excess of the foregoing number.

Dividends

The Company paid cash dividends on the common stock of $1.50, $.35, and $.30 per share for the fiscal years ended June 30, 2004, 2003 and 2002, respectively. The Board of Directors has authorized the payment of a fiscal 2005 first quarter dividend of $.15 payable September 30, 2004.

See also Item 12 for a discussion of Securities Authorized for Issuance under Equity Compensation plans.

During fiscal 2004 the Company sold common stock to certain employees as they exercised existing stock options granted under a shareholder approved plan. 8,500 shares were sold at various times during the year at prices that ranged from $13.25 a share to $19.85 a share. The securities were sold for cash and were made without registration under the Securities Act in reliance upon the exemption from registration afforded under Section 4(2) of the Securities Act of 1933. Proceeds were used for general working capital purposes.

There were no purchases of equity securities in the fiscal 2004 fourth quarter.

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Item 6. Selected Financial Data.

ESPEY MFG. & ELECTRONIC
Five Years Ended June 3

Selected Income Statement Data	2004	2003	2002
Net Sales	$22,507,199	$19,773,411	$18,405,213
Operating Income	1,178,723	1,146,386	549,139
Other income	121,894	139,880	179,615
Net income	960,826	964,700	545,754
Income per common share:			
Basic	$ .95	$ .94	$ .53
Diluted	$ .94	$ .94	$ .53
Selected Balance Sheet Data			
Current Assets	26,030,744	26,528,434	25,008,710
Current Liabilities	965,038	1,639,755	1,158,439
Working Capital	25,065,706	24,888,679	23,850,271
Total Assets	29,131,260	29,795,497	28,332,962
Stockholders' equity	27,841,906	27,953,508	27,054,442
Cash dividends declared and paid per common share	$ 1.50	$ .35	$ .30

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

Business Outlook

During fiscal year 2004, while net sales increased, new orders received by the Company did not keep pace with backlog relieved. Thus, while the sales backlog of approximately $15.4 million at June 30, 2004 gives the Company a solid base of future sales, the Company anticipates that the reduction of backlog may result in a reduction of sales during fiscal 2005. Management also anticipates a concurrent reduction in costs. Management believes that existing customers have been delayed in placing orders for additional products, but anticipates that new orders will be received in the current calendar year which should result in a significant increase in backlog. Many potential orders are currently being discussed and negotiated with our customers. In addition to the backlog, the Company currently has outstanding quotations representing in excess of $40 million in the aggregate for both repeat and new programs. Based on management's communications with customers, the Company expects to receive substantial orders for spare parts on the various types of transmitters which are already in service, a number of contracts for further development and manufacture of power supplies, transformers and additional contracts for pre-engineered hardware. We expect these contracts to substantially increase sales in years beyond 2005.

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

Results of Operations

Net Sales for fiscal years ended June 30, 2004, 2003 and 2002, were $22,507,199, $19,773,411, and $18,405,213, respectively. The 13.8% increase in net sales in 2004 as compared to 2003, is the result of increased transmitter component shipments on two of the Company's products. In fiscal 2004, the Company continued to realize the benefits of increased business with existing customers and continued to establish new customer relationships. Enhanced customer relationships and the quality of our products have provided for the continued increase in sales that has occurred over the last five years. The sales backlog at June 30, 2004, as discussed above includes significant orders for land and shipboard high voltage radar power supply/transmitters, industrial power supplies, and contracts to manufacture certain customer products in accordance with pre-engineered requirements. The increase in net sales in 2003 as compared to 2002 was the result of increased shipments of small transformers, certain power supplies, and shipments made on build to print orders.

The primary factor in determining gross profit and net income is product mix. The gross profits on mature products and build to print contracts are higher than with respect to the products which are still in the engineering development stage or in the early stages of production. In any given accounting period the mix of product shipments between higher margin mature programs and less mature programs including loss contracts, has a significant impact on gross profit and net income. For fiscal years ended June 30, 2004, 2003 and 2002 gross profits were $3,714,865, $3,097,861, and $2,300,994, respectively. The increase in gross profit between 2004, 2003 and 2002 was predominately due to an increase in net sales and favorable product mix. Gross profit as a percentage of sales was 16.5%, 15.7%, and 12.5% for fiscal 2004, 2003, and 2002, respectively. Management continues to evaluate the Company's workforce to ensure that production and overall execution of the backlog orders and additional anticipated orders are successfully performed. Employment at June 30, 2004 was 181 people compared to 192 people at June 30,2003.

Net income for fiscal 2004, was $960,826 or $.95 and $.94 per share, basic and diluted, respectively, compared to $964,700 or $.94 per share, both basic and diluted, for fiscal 2003. The change in net income per share was due to increased sales and improved gross profit offset primarily by one loss contract and higher selling, general and administrative expenses. Net income for fiscal 2003, was $964,700 or $.94 per share compared to net income of $545,754 or $.53 per share for fiscal 2002. The increase in net income per share was due to decreased expenditures made on engineering development contracts, higher sales and favorable product mix. The decrease in engineering development expenditures occurred naturally as the related programs moved from the engineering design phase into the production phase of the associated contracts. The increase in net income was partially offset by an increase in selling, general and administrative expenses.

Selling, general and administrative expenses were $2,536,142, for the fiscal year ended June 30, 2004, an increase of $584,667, or 30.0% as compared to the prior year. This increase is primarily due to an increase in professional fees, insurance costs and administrative salaries. The increase in professional fees was attributable, in part, to legal fees incurred relating to the review conducted by the American Stock Exchange following the Company's Annual Meeting in November 2003 and the implementation of corporate governance modifications, including the amendment of the corporate by-laws. Selling, general and administrative expenses were $ 1,951,475 for the year ended June 30, 2003, an increase of $199,620, or 11.4% as compared to the prior year. This increase is mainly attributable to an increase in insurance premiums and increased selling expenses.

Other income for fiscal 2004 decreased as compared to fiscal 2003 due to lower dividend and interest income. The Company does not believe that there is significant risk associated with its investment policy, since at June 30, 2004 all of the investments are primarily represented by short-term liquid investments including certificates of deposit and money market accounts. Total other income in fiscal 2003, as compared to 2002 declined as expected, as the Company sold its higher interest bearing preferred securities, and interest rates continued to decline.

The effective income tax rate was 26.1% in 2004, 25.0% in 2003, and 25.1% in 2002. The effective tax rate is less than the statutory tax rate mainly due to the foreign exportation benefit the Company receives on its foreign sales.

Liquidity and Capital Resources

The Company's working capital is an appropriate indicator of the liquidity of its business, and during the past three fiscal years, the Company, when possible, has funded all of its operations with cash flows resulting from operating activities and when necessary from its existing cash and investments. The Company did not borrow any funds during the last three fiscal years. Management has available a $3,000,000 line of credit to help fund further growth or working capital needs, if necessary, but does not anticipate the need for any borrowed funds in the foreseeable future.

The Company's working capital as of June 30, 2004, 2003 and 2002 was $25,065,706, $24,888,679, and $23,850,271, respectively. During 2004, 2003 and 2002 the Company repurchased 13,625, 15,918, and 0 shares, respectively, of its common stock from the Company's Employee Retirement Plan and Trust ("ESOP") and in other open market transactions, for a total purchase price of $272,329, $311,468, and $0, respectively. Under existing authorizations from the Company's Board of Directors, as of June 30, 2004, management is authorized to purchase an additional $542,566 of Company stock.

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

	2004	2003
Net cash provided by operating activities	$ 3,874,800	$ 1,936,468
Net cash (used) provided by investing activities	(910,855)	523,370
Net cash used in financing activities	1,649,456	656,317

Net cash provided by operating activities fluctuates between periods primarily as a result of differences in net income, the timing of the collection of accounts receivable, purchases of inventory, receipt of progress payments, level of sales and payments of accounts payable. Net cash (used) provided by investing activities changed in fiscal 2004 due to slightly lower additions of plant and equipment and the purchase of short-term investments. The increase in cash used in financing activities is due primarily to the increase in the amount of dividends paid during 2004 as compared to 2003.

The Company believes that the cash generated from operations and when necessary, from existing cash and cash equivalents, will be sufficient to meet its long-term funding requirements for the foreseeable future.

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

During fiscal year 2004 and 2003, the Company expended $413,517 and $438,481, respectively, for plant improvements and new equipment. The Company has budgeted approximately $450,000 for new equipment and plant improvements in fiscal 2005. Management presently anticipates that the funds required will be available from current operations.

The Company has entered 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 approximately $190,000 at June 30, 2004. The Company does not expect to fund any of the amounts under the standby letters of credit.

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The Company has an operating lease for $500 a month which expires June 1, 2008.

Critical Accounting Policies and Estimates

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

Revenue Recognition and Estimates

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

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

Other Matters

An Employee Retirement Plan and Trust ("ESOP") was established for the eligible non-union employees of the Company, effective as of July 1, 1988. The ESOP used the proceeds of a loan from the Company made on June 5, 1989 to purchase 316,224 shares of the Company's common stock for approximately $8,400,000 and the Company contributed approximately $400,000 in 1989 to the ESOP, which was used by the ESOP to purchase an additional 15,000 shares of the Company's common stock.

Each year the Company makes contributions to the ESOP, which are used to make loan interest and principal payments. With each loan and interest payment, a portion of the common stock is allocated to participating employees. As of June 30, 2004, there were 240,749 shares allocated to participants. Dividends attributable to allocated shares were likewise allocated to the participants' accounts, whereas the dividends on unallocated shares were used toward the loan repayment, thus reducing the Company's required contribution.

The loan from the Company to the ESOP was repayable in annual installments of $1,039,605, including interest through June 30, 2004. Interest was payable at a rate of 9% per annum. The Company's receivable from the ESOP is recorded as common stock subscribed in the accompanying balance sheet as of June 30, 2003.

Effective June 30, 2004 the loan from the Company to the ESOP was paid in full and all shares have been allocated to participant's accounts.

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

It should be noted that in this Management's Discussion and Analysis of Financial Condition and Results of Operations are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are made pursuant to the safe harbor provisions 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, as well as supply and manufacturing constraints 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.

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Item 8. Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Espey Mfg. & Electronics Corp.:

We have audited the accompanying balance sheet of Espey Mfg. & Electronics Corp. as of June 30, 2004, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Espey Mfg. & Electronics Corp. as of June 30, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

KPMG LLP
Albany, New York
August 6, 2004

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Espey Mfg. & Electronics Corp. :

In our opinion, the 2003 and 2002 financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Espey Mfg. & Electronics Corp. (the Company) at June 30, 2003, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Albany, New York
August 1, 2003

Espey Mfg. & Electronics Corp.
Balance Sheets
June 30, 2004 and 2003

	2004
ASSETS	
Cash and cash equivalents	$ 12,310,
Short term investments	1,056,
Trade accounts receivable, net	2,140,
Other receivables	1,
Inventories:	
Raw materials and supplies	1,543,
Work in Process	3,390,
Costs related to contracts in process, net of progress payments of $905,646 in 2004 and $3,314,816 in 2003	5,151,
Total inventories	10,085,
Deferred income taxes	76,
Prepaid expenses and other current assets	359,
Total current assets	26,030,
Property, plant and equipment, net	3,100,
Total Assets	$ 29,131,
LIABILITIES AND STOCKHOLDERS'EQUITY	
Accounts payable	$ 250,
Accrued expenses:	
Salaries, wages and commissions	44,
Employee insurance costs	7,
Vacation	451,
Other	50,
Payroll and other taxes withheld and accrued	26,
Income taxes payable	134,
Total current liabilities	965,
Deferred income taxes	324,
Total liabilities	1,289,
Common stock, par value $.33-1/3 per share Authorized 10,000,000 shares; Issued 1,514,937 shares in 2004 and 2003, outstanding 1,014,618 and 1,019,643 shares in 2004 and 2003	504,
Capital in excess of par value	10,411,
Retained Earnings	24,911,
	35,828,
Less common stock subscribed	
Cost of 500,319 and 495,294 shares of common stock in treasury in 2004 and 2003, respectively	(7,986,
Total stockholders' equity	27,841,

Total liabilities and stockholders' equity	$ 29,131,

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

Espey Mfg. & Electronics Corp.
Statements of Income
Years Ended June 30, 2004, 2003 and 2002

	2004	200
Net sales	$ 22,507,199	$ 19,77
Cost of sales	18,792,334	16,67
Gross profit	3,714,865	3,09
Selling, general and administrative expenses	2,536,142	1,95
Operating income	1,178,723	1,14
Other income (expense)		
Interest and dividend income	94,655	14
Other income (loss)	27,239	
Total other income	121,894	13
Income before income taxes	1,300,617	1,28
Provision for income taxes	339,791	32
Net income	$ 960,826	$ 96
Net Income per share:		
Basic	$ .95	$
Diluted	$ .94	$
Weighted average number of shares outstanding		
Basic	1,013,663	1,02
Diluted	1,022,344	1,02

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

Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity
Years Ended June 30, 2004, 2003 and 2002

	Common Shares	Amount	Capital in Excess of par Value	Accumula Other Comprehe sive inc (Loss
Balance as of June 30, 2001	1,029,461	$ 504,979	$10,496,287	$ (50,
Comprehensive income:				
Net income, 2002				
Other comprehensive income, net of tax benefit of $9,940				21,
Comprehensive income				
Stock option exercises	5,100		(30,409)	
Dividends paid on common stock $.30 per share				
Tax effect of dividends on unallocated ESOP shares				
Purchase of treasury stock				
Reduction of common stock subscribed				
Balance as of June 30, 2002	1,034,561	504,979	10,465,878	(29,
Comprehensive income:				
Net income, 2003				
Other comprehensive income, net of tax benefit of $15,599				19,
Reclassification adjustment				9,
Comprehensive income				
Stock option exercises	1,000		(6,600)	
Dividends paid on common stock $.35 per share				
Tax effect of dividends on unallocated ESOP shares				
Purchase of treasury stock	(15,918)			
Reduction of common stock subscribed				
Balance as of June 30, 2003	1,019,643	504,979	10,459,278	

Net income, 2004				
Stock option exercises	8,600		(53,122)	
Dividends paid on common stock $1.50 per share				
Tax effect of stock options exercised			5,759	
Tax effect of dividends on unallocated ESOP shares				
Purchase of treasury stock	(13,625)			
Reduction of common stock subscribed				
Balance as of June 30, 2004	1,014,618	$ 504,979	$10,411,915	$

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	Common Stock Subscribed	Treasury Stock Shares	Treasury Stock Amount
Balance as of June 30, 2001	(1,675,987)	485,476	$(7,716,85
Comprehensive income:			
Net income, 2002			
Other comprehensive income, net of tax benefit of $9,940			
Comprehensive income			
Stock option exercises		(5,100)	97,98
Dividends paid on common stock $.30 per share			
Tax effect of dividends on unallocated ESOP shares			
Reduction of common stock subscribed	558,662		
Balance as of June 30, 2002	(1,117,325)	480,376	(7,618,86
Comprehensive income:			
Net income, 2003			
Other comprehensive gain, net of tax benefit of $15,599			
Reclassification adjustment			
Comprehensive income			

Stock option exercises		(1,000)	19,85
Dividends paid on common stock $.35 per share			
Tax effect of dividends on unallocated ESOP shares			
Purchase of treasury stock		15,918	(311,46
Reduction of common stock subscribed	558,663		
Balance as of June 30, 2003	(558,662)	495,294	(7,910,48
Net income, 2004			
Stock option exercises		(8,600)	195,90
Dividends paid on common stock $1.50 per share			
Tax effect on stock options exercised			
Tax effect of dividends on unallocated ESOP shares			
Purchase of treasury stock		13,625	(272,32
Reduction of common stock subscribed	558,662		
Balance as of June 30, 2004	--	500,319	$(7,986,90

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

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Espey Mfg. & Electronics Corp.
Statements of Cash Flows
Years Ended June 30, 2004, 2003 and 2002

	2004	
Cash Flows From Operating Activities:		
Net income	$ 960,826	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Tax effect of dividends on unallocated ESOP shares	12,607	
Tax effect on stock options exercised	5,759	

Depreciation	557,943	
Loss on disposal of plant and equipment	22,121	
Loss on sale of investment securities	--	
Deferred income tax	133,849	
Changes in assets and liabilities:		
Decrease (increase) in receivables	1,340,327	(1,
Decrease in inventories, net	1,750,970	
(Increase) decrease in prepaid expenses and other current assets	(234,885)	
(Decrease) increase in accounts payable	(396,922)	
(Decrease) increase in accrued salaries, wages and commissions	(43,768)	
Increase (decrease) in accrued employee insurance costs	449	
(Decrease) increase in vacation accrual	(14,299)	
Increase in other accrued expenses	8,009	
(Decrease) increase in payroll and other taxes withheld and accrued	(12,425)	
(Decrease) increase in income taxes payable	(215,761)	
Net cash provided by operating activities	$ 3,874,800	$ 1,

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

(Continued)

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Cash Flows From Investing Activities:

Proceeds from maturity of investment securities	--	4
Additions to property, plant and equipment	(413,517)	(4
Purchase of short term investments	(1,056,000)	
Proceeds on sale of plant and equipment	--	
Reduction of common stock subscribed	558,662	5

Net cash (used) provided by investing activities	(910,855)	5
Cash Flows From Financing Activities:		
Dividends on common stock	(1,519,913)	(3
Purchase of treasury stock	(272,329)	(3
Proceeds from exercise of stock options	142,786	
Net cash used in financing activities	(1,649,456)	(6
Increase in cash and cash equivalents	1,314,489	1,8
Cash and cash equivalents, beginning of the year	10,996,483	9,1
Cash and cash equivalents, end of the year	$ 12,310,972	$ 10,9
Net Income Taxes Paid	$ 403,337	$

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

Espey Mfg. & Electronics Corp.
Notes to Financial Statements

Note 1. Nature of operations

Espey Mfg. & Electronics Corp. (the Company) is a manufacturer of electronic equipment used primarily in military and industrial applications. The principal markets for the Company's products are companies that provide electronic support to both military and industrial applications. During the year the Company dissolved Espey International, Inc, a wholly owned subsidiary. The subsidiary was an inactive foreign sales corporation.

Note 2. Summary of Significant Accounting Policies

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

Inventoried work relating to contracts in process and work in process is valued at actual production cost, including factory overhead incurred to date. Work in process represents spare units, parts and other inventory items acquired or produced to service units previously sold or to meet anticipated future orders. The cost elements of contracts in process and work in process consist of production costs of goods and services currently in process and overhead. Provision for losses on contracts is made when the existence of such losses becomes evident. The costs attributed to units delivered under contracts are based on the estimated average cost of all units expected to be produced. Certain contracts are expected to extend beyond twelve months.

Revenue is recognized on contracts in the period in which the units are delivered and billed (unit-of-delivery method). A significant portion of our business is comprised of development and production contracts. Generally, revenues on long-term fixed-price contracts are recorded on a percentage of completion basis using units of delivery as the measurement basis for progress toward completion.

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

Depreciation

Depreciation of plant and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

Estimated useful lives of depreciable assets are as follows:

Buildings and improvements	10 - 25 years
Machinery and equipment	3 - 10 years
Furniture, fixtures and office equipment	10 years

Income Taxes

The Company follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes."

Under the provisions of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. In addition, SFAS No. 109 requires that the tax benefit of tax-deductible dividends on unallocated ESOP shares be recorded as a direct addition to retained earnings rather than as a reduction of income tax expense.

Note 2. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks, certificates of deposit, and money market accounts. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Short-term investments include certificates of deposit with maturities greater than three months to a year.

Stock-Based Compensation

The intrinsic value method of accounting is used for stock-based compensation plans. Under the intrinsic value method, compensation cost is measured as the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock.

The Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting as permitted by SFAS No. 123 and as prescribed by Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB No. 25, in accounting for its fixed stock option plans. Under this method, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, Accounting for Stock Based Compensation. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS No. 123, Accounting for Stock Based Compensation, to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted the disclosure requirements of SFAS No. 123 and SFAS No. 148, as required.

The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS no. 123, to stock-based employee compensation.

	Year Ended June 30, 2004	2003	2002
Net income as reported	$ 960,826	$ 964,700	$ 545,754
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(31,460)	(36,912)	(36,080)
Pro forma net income	$ 929,366	$ 927,788	$ 509,674
Net income per share:			
Basic-as reported	$ .95	$ .94	$ .53
Basic-pro forma	$ .92	$ .91	$ .49
Diluted-as reported	$ .94	$ .94	$ .53
Diluted-pro forma	$ .91	$ .91	$ .49

Espey Mfg. & Electronics Corp.
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies, Continued

Per Share Amounts

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 net income of the Company.

Comprehensive Income

Comprehensive income in 2003 and 2002 consists of net income and unrealized gains (losses) on securities available-for-sale and is presented in the Statement of Changes in Stockholders' Equity. In 2004, comprehensive income is equal to net income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment Tax Credits

Investment tax credits are accounted for as a reduction of income tax expense in the year taxes payable are reduced.

Reclassifications

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

Impairment of Long-Lived Assets

Long-lived assets, including property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Concentrations of Risk

The market for our defense electronics products is largely dependent on the availability of new contracts from the United States and foreign governments to prime contractors to which we provide components. Any decline in expenditures by the United States or foreign governments may have an adverse effect on our financial performance.

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

Note 3. Contracts in Process

Contracts in process at June 30, 2004 and 2003 are as follows:

	2004	2003
Gross contract value	$15,425,540	$21,370,490
Costs related to contracts in process, net of progress payments of $905,646 in 2004 and $3,314,816 in 2003	$ 5,151,234	$ 7,246,158

Note 3. Contracts in Process, Continued

Included in costs relating to contracts in process at June 30, 2004 and 2003 are costs of $1,237,135 and $1,460,338, respectively, relative to contracts that may not be completed within the ensuing year. Under the unit-of-delivery method, the related sale and cost of sales will not be reflected in the statement of income until the units under contract are shipped.

Note 4. Property, Plant and Equipment

A summary of the original cost of property, plant and equipment at June 30, 2004 and 2003 is as follows:

	2004	2003
Land	$ 45,000	$ 45,000
Building and improvements	4,040,155	3,981,689
Machinery and equipment	7,506,843	7,273,596
Furniture, fixtures and office equipment	309,407	308,394
	11,901,405	11,608,679
Accumulated depreciation	(8,800,880)	(8,341,616)
	$ 3,100,516	$ 3,267,063

Depreciation expense was $557,943, $495,670, and $513,470 during the years ended June 30, 2004, 2003, and 2002, respectively.

Note 5. Line of credit

At June 30, 2004, the Company has an uncommitted and unused Line of Credit with a financial institution. The agreement provides that the Company may borrow up to $3,000,000. The line provides for interest at the borrower's choice of (I) prime minus .75% or (II) LIBOR plus 1.80% for periods of 1, 2, or 3 months. Any borrowing under the line of credit will be collateralized by accounts receivable.

Note 6. Research and Development Costs

Research and development costs charged to cost of sales during the years ended June 30, 2004, 2003 and 2002 were approximately $150,000, $100,000, and $335,000, respectively.

Note 7. Pension Expense

Under terms of a negotiated union contract, the Company is obligated to make contributions to a union-sponsored defined benefit pension plan covering eligible employees. Such contributions are based upon hours worked at a specified rate and amounted to $91,265 in 2004, $93,066 in 2003, and $83,778 in 2002.

The Company sponsors a 401(k) plan with employee and employer matching contributions. The employer match is 10% of the employee contribution and was $31,721, $29,030, and $25,744 for fiscal years 2004, 2003 and 2002 respectively.

Note 8. Provision for Income Taxes

A summary of the components of the provision for income taxes for the years ended June 30, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
Current tax expense - federal	$190,387	$252,961	$ 49,653
Current tax expense - state	15,555	11,246	1,383
Deferred tax expense	133,849	57,359	131,964
	$339,791	$321,566	$183,000

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Mfg. & Electronics Corp.
Notes to Financial Statements

Note 8. Provision for Income Taxes, Continued

Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts measured by tax laws and regulations. These "temporary differences" are determined in accordance with SFAS No. 109.

The combined U.S. federal and state effective income tax rates of 26.1%, 25.0%, and 25.1%, for 2004, 2003 and 2002 respectively, differed from the statutory

U.S. federal income tax rate for the following reasons:

	2004	2003	
U.S. federal statutory income tax rate	34.0%	34.0%	
Increase (reduction) in rate resulting from:			
Dividends received deduction	--	(1.0)	
State franchise tax, net of federal income tax benefit	1.0	1.0	
Foreign exportation benefit	(7.7)	(5.0)	
Other	(1.2)	(4.0)	
Effective tax rate	26.1%	25.0%	

For the years ended June 30, 2004 and 2003 deferred income tax expense of $133,849 and $57,359, respectively, result from the changes in temporary differences for each year. The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities as of June 30, 2004 and 2003 are presented as follows:

	2004	
Deferred tax assets:		
Common stock subscribed - due to difference in interest recognition	$ --	$
Non-deductible accruals	108,485	
Other	15,428	
Total deferred tax assets	123,913	
Deferred tax liabilities:		
Property, plant and equipment - principally due to differences in depreciation methods	324,316	
Inventory - effect on uniform capitalization	47,037	
Total deferred tax liabilities	371,353	
Net deferred tax liability	$(247,440)	$(

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projection for future taxable income over the period in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these temporary differences without consideration of a valuation allowance.

Espey Mfg. & Electronics Corp.
Notes to Financial Statements

Note 9. Significant Customers

A significant portion of the Company's business is the production of military and industrial electronic equipment for use by the U.S. and foreign governments and certain industrial customers. Sales to two domestic customers and one foreign customer accounted for 22%, 16%, and 18%, respectively, of total sales in 2004. Sales to two domestic customers and one foreign customer accounted for 25%, 19%, and 12%, respectively, of total sales in 2003. Sales to two domestic customers and one foreign customer accounted for 26%, 21%, and 14% respectively, of total sales in 2002.

Export sales aggregated approximately $9,800,000, $7,100,000, and $6,600,000, for the years ended June 30, 2004, 2003 and 2002, respectively.

Note 10. Stock Rights Plan

The Company has a Shareholder Rights Plan which expires on December 31, 2009. Under this plan, common stock purchase rights were distributed as a dividend at the rate of one right for each share of common stock outstanding as of or issued subsequent to April 14, 1989. Each right entitles the holder thereof to buy one-half share of common stock of the Company at an exercise price of $50 per share subject to adjustment. The rights are exercisable only if a person or group acquires beneficial ownership of 15% or more of the Company's common stock or commences a tender or exchange offer which, if consummated, would result in the offer or, together with all affiliates and associates thereof, being the beneficial owner of 15% or more of the Company's common stock.

If a 15% or larger shareholder should engage in certain self-dealing transactions or a merger with the Company in which the Company is the surviving corporation and its shares of common stock are not changed or converted into equity securities of any other person, or if any person were to become the beneficial owner of 15% or more of the Company's common stock, then each right not owned by such shareholder or related parties of such shareholder (all of which will be void) will entitle its holder to purchase, at the right's then current exercise price, shares of the Company's common stock having a value of twice the right's exercise price. In addition, if the Company is involved in any other merger or consolidation with, or sells 50% or more of its assets or earning power to, another person, each right will entitle its holder to purchase, at the right's then current exercise price, shares of common stock of such other person having a value of twice the right's exercise price.

The Company generally is entitled to redeem the rights at one cent per right at any time until the 15th day (or 25th day if extended by the Company's Board of Directors) following public announcement that a 15% position has been acquired or the commencement of a tender or exchange offer which, if consummated, would result in the offer or, together with all affiliates and associates thereof, being the beneficial owner of 15% or more of the Company's common stock.

Note 11. Employee Stock Ownership Plan

In 1989, the Company established an Employee Stock Ownership Plan (ESOP) with an effective date of July 1, 1988, for eligible non-union employees. The ESOP used the proceeds of a loan from the Company made in June 1989 to purchase 316,224 shares of the Company's common stock for approximately $8.4 million and the Company contributed approximately $400,000 in 1989 to the ESOP which was used by the ESOP to purchase an additional 15,000 shares of the Company's common stock. Since inception of the Plan, the ESOP has sold or distributed 135,235 shares of the Company's common stock to pay benefits to participants. At June 30, 2004 and 2003, the ESOP held a total of 240,749 and 251,574 shares, respectively, of the Company's common stock, of which 240,749 and 230,562 shares, respectively, were allocated to participants in the Plan.

The loan from the Company to the ESOP was repayable in annual installments of $1,039,605 including interest, through June 30, 2004. Interest was payable at a rate of 9% per annum. The Company's receivable from the ESOP at June 30, 2003 is recorded as common stock subscribed in the accompanying balance sheet. The Company Espey recognizes the principal payments of the ESOP debt, on a straight-line basis over the term of the note, as compensation expense.

Note 11. Employee Stock Ownership Plan, Continued

Each year, the Company makes contributions to the ESOP which are used to make loan payments. With each loan payment, a portion of the common stock is allocated to participating employees. For the periods ended June 30, 2004 and 2003, 21,012 shares were allocated to participants. In 2004, the Company's required contribution of $1,039,605 was reduced by $31,518, which represents the dividends paid on unallocated ESOP shares. The resulting payment of $1,008,087 includes $527,144 classified as compensation expense. In 2003, the Company's required contribution of $1,039,605 was reduced by $14,708, which represents the dividends paid on unallocated ESOP shares. The resulting payment of $1,024,897 includes $543,954 classified as compensation expense. In 2002, the Company's required contribution of $1,039,605 was reduced by $18,911, which represents the dividends paid on the unallocated ESOP shares. The resulting payment of $1,020,694 includes $539,752 classified as compensation expense. All shares purchased by the ESOP are considered to be outstanding for the income per share computations.

Effective June 30, 2004 the loan from the Company to the ESOP was paid in full and all shares have been allocated to participants' accounts.

Note 12. Stock Based Compensation

During fiscal 2000, the Board of Directors and shareholders approved the 2000 Stock Option Plan (the Plan). Under the Plan, incentive and non-qualified stock options will be granted to purchase shares of common stock of the Company. Options authorized for issuance under the Plan totaled 150,000. As of June 30, 2004, the Plan was authorized to grant options to purchase 98,400 shares of the Company's common stock.

Options granted under the Plan have been granted with exercise prices at fair market value at the grant date and vest over a period of two years. All options must be exercised within 10 years from the date of grant and are exercisable anytime after the two year vesting period.

Information concerning the plans incentive and non-qualified stock options is as follows:

	Option Shares	Option Price Per Share

June 30, 2001	24,000	$13.25 - 17.95
Options granted	13,000	19.85
Options canceled	(500)	$13.25 - 17.95
Options exercised	(5,100)	13.25
June 30, 2002	31,400	$13.25 - 19.85
Options granted	15,100	18.50
Options canceled	--	--
Options exercised	(1,000)	13.25
June 30, 2003	45,500	$13.25 - 19.85
Options granted	--	--
Options canceled	--	--
Options exercised	(8,500)	$13.25 - 19.85
June 30, 2004	37,000	$13.25 - 19.85

Espey Mfg. & Electronics Corp.
Notes to Financial Statements

Note 12. Stock Based Compensation, Continued

The table below summarizes information with respect to stock options outstanding as of June 30, 2004:

Exercise Prices	Options Outstanding	Remaining Contractual Life	Options Exercisable	E
$ 13.25	1,600	6	1,600	
$ 17.95	8,500	7	8,500	
$ 19.85	11,800	8	11,800	
$ 18.50	15,100	9	--	
Total	37,000		21,900	

During 2004, no stock options were granted under the plan. The weighted average fair value of options granted under the plans during fiscal years 2003 and 2002 was $4.31, and $3.93, respectively. The assumptions used for the Black-Scholes model are as follows:

	2003
Risk-free interest rate................................	3.5%

Expected term	5 years
Company's expected volatility	20.0%
Dividend yield	2.5%

Note 13. Financial Instruments/Concentration of Credit Risk

The carrying amounts of financial instruments, including cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued expenses, approximated fair value as of June 30, 2004 and 2003 because of the relatively short maturities of these instruments.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short term investments and accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. At times such investments may be in excess of FDIC insurance limits. As disclosed in Note 9, a significant portion of the Company's business is the production of military and industrial electronic equipment for use by the U.S. and foreign governments and certain industrial customers. The related accounts receivable balance represented by three customers was 29% and 57% of the Company's total trade accounts receivable balance at June 30, 2004 and 2003, respectively.

Although the Company's exposure to credit risk associated with nonpayment of these balances is affected by the conditions or occurrences within the U.S. and foreign governments, the Company believes that its trade accounts receivable credit risk exposure is limited. The Company performs ongoing credit evaluations of its customer's financial conditions and requires collateral, such as progress payments, in certain circumstances. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

Note 14. Related Parties

The Company paid a law firm in which a director of the Company is a partner, a total of $11,524, $22,000, and $24,000 for legal services during fiscal years ended June 30, 2004, 2003, and 2002, respectively.

Note 15. Commitments and Contingencies

The Company has entered 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 approximately $190,000 at June 30, 2004. The Company does not expect to fund any of the amounts under the standby letters of credit.

The Company also has an operating lease commitment for a copier machine for $500 per month which expires on June 1, 2008.

Note 16. Quarterly Financial Information (Unaudited)

	First Quarter	Second Quarter	Thir Quar
2004			
Net Sales	$5,095,317	$5,871,675	$6,116
Gross profit	900,172	727,876	717
Net income	280,965	61,430	54
Net income per share -			
Basic	0.28	0.06	
Diluted	0.28	0.06	
2003			
Net Sales	$4,491,359	$5,374,456	$5,707
Gross profit (loss)	789,221	(75,254)	1,223
Net income (loss)	306,545	(417,334)	575
Net income (loss) (per share - basic and diluted)	0.30	(0.41)	
2002			
Net Sales	$4,585,515	$5,199,517	$4,616
Gross profit	607,585	593,569	700
Net income	203,691	81,999	212
Net income (per share - basic and diluted)	0.20	0.08	

Item 9. Changes in and disagreements with accountants on accounting and financial disclosure

None

Item 9A. Controls and Procedures

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

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

Item 9B. Other information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Identification of Directors

Name	Date Present Term Expires and Period Served as Director	Other Positions and Offices Held With Registrant
Paul J. Corr	Annual Meeting in December 2005 Director since 1992	None
William P. Greene	Annual Meeting in December 2004 Director since 1992	None
Carl Helmetag	Annual Meeting in December 2006 Director since 1999	None
Barry Pinsley	Annual Meeting in December 2005 Director since 1994	Non-Executive officer
Howard Pinsley	Annual Meeting in December 2006 Director since 1992	President and Chief Executive Officer
Alvin O. Sabo	Annual Meeting in December 2006 Director since 1999	None
Seymour Saslow	Annual Meeting in December 2004 Director since 1992	None
Michael W. Wool	Annual Meeting in December 2005 Director since 1990	None

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Identification of Executive Officers

Name	Positions and Offices Held With Company	Period Served As Executive Officer
Howard Pinsley	President and Chief Executive Officer	Served as Vice President Special Power Supplies from April 3, 1992 until

		being elected as Executi Vice President on Decemb 6, 1997. Elected to pres office on December 10, 1
John J. Pompay, Jr.	Vice President- Marketing and Sales	Since December 6, 1996 Retired April 5, 2004
David A. O'Neil	Treasurer & Principal Financial Officer	Since January 4, 2000. Controller and Assistant Treasurer from December 1998 to January 3, 2000
Peggy A. Murphy	Secretary	Since December 11, 1998
Garry M. Jones	Assistant Treasurer & Principal Accounting Officer	Since August 4, 1988. Principal Financial Officer from August 4, 1 to September 10, 1993
Timothy A. Polidore	Assistant Treasurer	Since December 8, 2000

The terms of office of Mrs. Peggy A. Murphy, Mr. David A. O'Neil, Mr. Timothy A. Polidore, and Mr. Garry M. Jones are until the next annual meeting of the Board of Directors unless successors are sooner appointed by the Board of Directors. The terms of office of Mr. Howard Pinsley and Mr. John Pompay are subject to the agreements between them and the Company. See "Employment Contracts and Termination of Employment."

Family Relationships

Barry Pinsley and Howard Pinsley are cousins.

Business Experience of Directors and Officers

Paul J. Corr is a Certified Public Accountant licensed by the State of [New York], and has been a Professor of Business at Skidmore College in Saratoga Springs, NY since 1981. Mr. Corr currently holds the position of Associate Professor. Mr. Corr is also a shareholder in the Latham, New York accounting firm of Rutnik, Matt & Corr, P.C.

William P. Greene, D.B.A. was vice president of operations for the Company until December 31, 2000 when he retired. Prior to joining the Company's management team he was Vice President of Finance for ComCierge, LLC, San Diego, CA since August 1997. Prior to that position, Dr. Greene held the position of Vice President Operations for Bulk Materials International, Newtown, CT from 1993 to July 1997. From 1991 to 1993, Dr. Greene was Associate Professor of Finance and International Business at Pennsylvania State University Kutztown, PA. From 1985 to 1990, he was Associate Dean of the School of Business, United States International University, San Diego, CA. From 1992 to 1995, he was Chairman of the Department of Business, Skidmore College, Saratoga Springs, NY.

Barry Pinsley is a Certified Public Accountant who for more than five years acted as a consultant to the Company prior to his election as Vice President-Special Projects on March 25, 1994. On December 6, 1997, Mr. Pinsley was elected to the position of Vice President-Investor Relations and Human Resources, from which he resigned on June 9, 1998. Mr. Pinsley has been a practicing Certified Public Accountant in Saratoga Springs, New York since 1975.

Howard Pinsley for more than the past five years has been employed by the Company on a full-time basis first as a Program Director prior to being elected

Vice President-Special Power Supplies on April 3, 1992. On December 6, 1996, Mr. Pinsley was elected to the position of Executive Vice President. On June 9, 1998 he was elected to the positions of President and Chief Operating Officer. On December 10, 1998 he became the President and Chief Executive Officer.

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Seymour Saslow had been Senior Vice President of the Company since December 6, 1996. Prior to being elected to Senior Vice President, Mr. Saslow served as Vice President-Engineering since April 3, 1992. Mr. Saslow resigned as an executive officer effective December 31, 1999.

Michael W. Wool is an attorney engaged in the private practice of law and as a senior partner since 1982 in the law firm of Langrock, Sperry & Wool with offices in Burlington and Middlebury, Vermont.

Alvin O. Sabo is an attorney engaged in private practice of law and Senior Partner of the law firm of Donohue, Sabo, Varley & Armstrong, P.C. in Albany, NY since 1980. Prior to that position, he was Assistant Attorney General, State of New York, Department of Law for eleven years.

Carl Helmetag is currently President and CEO of UVEX Inc. in Providence, RI. From 1996 to 1999, he was President and CEO of Head USA Inc. Prior to that position, Mr. Helmetag was Executive Vice President, and then President at Dynastar Inc. from 1978 to 1996. He is an MBA graduate from the Wharton School of Business, University of Pennsylvania.

Peggy Murphy is Secretary of the Company since December 11, 1998. She has been employed by the Company since 1978 and has served as Director of Human Resources since October 1998.

David A. O'Neil is currently the Treasurer and Principal Financial Officer of the Company. Mr. O'Neil is a Certified Public Accountant who joined the Company as Controller and Assistant Treasurer on November 6, 1998. Prior to joining the Company, Mr. O'Neil was a Senior Manager at the accounting firm of KPMG LLP.

John J. Pompay, Jr. for more than the past five years has been employed by the Company on a full-time basis as Vice President-Marketing and Sales since December 6, 1996. Effective April 5, 2004, Mr. Pompay retired as an executive officer.

Timothy A. Polidore was the Assistant Treasurer of the Company. Mr. Polidore joined the Company on May 17, 1999. Prior to joining the Company he was Accounting Manager for Brinks, Inc. Effective August 6, 2004 Mr. Polidore resigned.

Garry M. Jones for more than the past five years has been employed by the Company on a full-time basis since 1970, and has served as Assistant Treasurer and Principal Accounting Officer since August 4, 1988.

Directorships

Howard Pinsley serves as a director of All American Semiconductor Inc.

None of the other directors holds a directorship in any other company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15 (d) of that Act or any company registered as an investment company under the Investment Company Act of 1940.

Legal Proceedings

None of the directors or executive officers of the Company were involved during the past five years in any legal proceedings specified under Item 401(f) of Regulation S-K.

Procedures For Shareholders to Nominate Directors

The information regarding this item is included under "Procedures For Shareholders to Nominate Directors" in our Proxy Statement for our 2004 annual meeting of shareholders.

Compliance with Section 16(a) of the Securities Exchange Act

The information regarding this item is included under "Compliance with Section 16(a) of the Securities Exchange Act" in our Proxy Statement for our 2004 annual meeting of shareholders.

Code of Ethics

The Company has adopted a Code of Ethics which is available on our website at www.espey.com.

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Item 11. Executive Compensation

The following table summarizes the annual compensation for each of the fiscal years ended June 30, 2004, 2003, and 2002 received by the Company's Chief Executive Officer and the other highest paid executive officers of the Company that received over $100,000 in total compensation as of June 30, 2004.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Salary	Bonus	Long Term Compensation: Securities Underlying Options(#)
Howard Pinsley	2004	$190,120	$20,000	0
President and	2003	$180,404	$12,500	2,000
Chief Executive Officer	2002	$173,120	$25,000	2,000
John J. Pompay, Jr.(2)	2004	$165,622	$25,000	0
Vice President-Sales	2003	$160,554	$25,000	800
	2002	$154,340	$25,000	800
David A. O'Neil	2004	$112,250	$12,500	0
Treasurer and Principal	2003	$105,490	$10,000	800
Financial Officer	2002	$ 99,950	$12,500	800

(1) Represents (a) the cash and market value of the shares allocated for the respective fiscal years under the Company's ESOP to the extent to which each named executive officer is vested, and the Company's matching

contribution under the 401K plan.

(2) Mr. Pompay retired, effective April 5, 2004, as an executive officer.

OPTION GRANTS IN LAST FISCAL YEAR

There were no options granted during the year ended June 30, 2004.

The following table sets forth information concerning unexercised options held on June 30, 2004 by the named executive officers:

AGGREGATED OPTIONS AT FISCAL YEAR-END AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired On Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable/Unexercisable	Value of In-th Opti Fiscal Y Exercisable
Howard Pinsley	0	0	4,000/2,000	15,800/
John J. Pompay Jr.*	0	0	800/800	2,400/
David A. O'Neil	0	0	800/800	2,400/

In accordance with the 2000 Stock Option Plan the above options have exercise dates that range from March 1, 2002 through and expiring on March 1, 2013.

*Mr. Pompay retired, effective April 5, 2004, as an executive officer.

Insurance

The executive officers and directors of the Company can elect to be covered under the Company sponsored health plans which do not discriminate in favor of the officers or directors of the Company and which are available generally to all employees. In addition, the executive officers are covered under a group life plan, which does not discriminate, and is available to all employees.

The Company maintains insurance coverage, as authorized by Section 727 of the New York Business Corporation Law, providing for (a) reimbursement of the Company for payments it

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makes to indemnify officers and directors of the Company, and (b) payment on behalf of officers and directors of the Company for losses, costs and expenses incurred by them in any actions.

Employee Retirement Plan and Trust

Under the Company's ESOP, approved by the Board of Directors on June 2, 1989, effective July 1, 1988, all non-union employees of the Company, including the Company's executive and non-executive officers are eligible to participate. The ESOP is a non-contributory plan which is designed to invest primarily in shares of common stock of the Company. Certain technical amendments not considered material were adopted effective as of June 30, 1994 and July 1, 2002.

Of the 240,749 shares of common stock of the Company allocated to participants of the ESOP as of June 30, 2004, 11,161 shares were allocated to John J. Pompay Jr., 10,712 shares were allocated to Howard Pinsley, 2,382 shares were allocated to David A. O'Neil and 3,369 shares were allocated to Barry Pinsley.

Compensation of Directors

The Company's standard arrangement compensates each director of the Company an annual fee in the amount of $15,000 for being a member of the Board of Directors. Each Director that also serves as a member of the Audit Committee is compensated an additional annual fee of $5,000. Each director that serves as a member of the Succession Committee or the Mergers and Acquisition Committee is compensated an additional $2,500 for each committee. These fees are paid monthly to the Directors. Executive officers that also serve on the Company's Board of Directors do not receive director's fees.

Directors are also eligible to receive stock options under the 2000 Stock Option Plan at the discretion of the stock option committee. The stock option committee consists of three appointed board members. For the year ended June 30, 2004 the following options remain granted and unexercised by the Board of Directors in accordance with this Plan.

Name	Number of Options	Exercise Price Range
Seymour Saslow	1,500	$17.95 - 19.85
Barry Pinsley	1,500	13.25 - 19.85
Michael W. Wool	1,500	17.95 - 19.85
William P. Greene	900	17.95 - 19.85
Paul J. Corr	1,600	13.25 - 19.85
Alvin O. Sabo	1,400	13.25 - 19.85
Carl Helmetag	800	13.25 - 19.85
Howard Pinsley	6,000	17.95 - 19.85

The above options have exercise dates ranging from March 1, 2002 and expiring on March 1, 2013.

Employment Contracts and Termination of Employment

The Company has an employment contract with John J. Pompay Jr. in connection with his duties as Vice President-Marketing and Sales. The contract was effective as of January 1, 2003, and allowed, on April 5, 2004, Mr. Pompay to voluntarily resign as Vice President of Marketing and Sales and accept an option under the contract as a non-executive officer in which he will receive full benefits plus full compensation for 13 weeks and then for the next 143 weeks receive $1,000 per week for services to be rendered. This contract expires on April 5, 2007.

The Company entered into an agreement with Howard Pinsley, President and CEO effective July 1, 2002. The contract allows Mr. Pinsley upon his resignation or termination to become a non-executive officer of the Company for a period of thirty-six months. In consideration for services to be provided by Mr. Pinsley for the equivalent of two days a month after his resignation or termination, and to perform duties as reasonably requested by the Company, he will receive full benefits plus, $15,000 per month for the first three months, and $4,333 per month for the next thirty-three consecutive months. This agreement expires on December 31, 2005.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners

The following information is furnished as of September 14, 2004 (unless otherwise indicated) with respect to any person (including any "group" as that term is used in Section 13(d)(3) of the Act) who is known to the Company to be the beneficial owner of more than five percent of any class of the Company's voting securities:

Title Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership
Common Stock	Franklin Advisory Services, LLC 777 Mariners Island Blvd P.O. Box 7777 San Mateo, CA 94403-7777	78,000 - Direct (1)
"	The Adirondack Trust Company, as Trustee of the Company's Employee Retirement Plan and Trust 473 Broadway Saratoga Springs, NY 12866	236,735 - Direct (2)
"	Advisory Research, Inc. 180 North Stetson St. Suite 5780 Chicago, IL 60601	70,700 - Direct (3)
"	Howard Pinsley 233 Ballston Avenue Saratoga Springs, NY 12866	46,634 - Direct (4) 10,712 - Indirect (4)

(1) The information as to the number of shares of common stock and the percent of class ownership of the Company that may be deemed beneficially owned by Franklin Advisory Services, LLC ("Franklin") is from the Schedule 13G, dated February 4, 2004 filed with the SEC. The Franklin statement indicated that Franklin's investment "advisory subsidiaries," have sole voting and dispositive power with respect to all of the shares of common stock shown in the table above for Franklin. The Franklin statement indicates that the common stock set forth in the table is beneficially owned by one or more open or closed-end investment companies or other managed accounts which are advised by direct and indirect Franklin investment advisory subsidiaries. The statement also indicated that it filed the Schedule 13G on behalf of itself and Franklin's principal shareholders, Charles B. Johnson and Rupert H. Johnson, Jr. (the "Principal Shareholders"), all of which are deemed beneficial owners of the shares of common stock shown in the above table for Franklin. Franklin and the Principal Shareholders disclaim any economic interest or beneficial ownership in any of the common stock shown in the table for Franklin.

(2) The information as to the number of shares of common stock of the Company that may be deemed beneficially owned by The Adirondack Trust is from the Form 4 dated August 26, 2004 filed with the SEC by the Trustee on behalf of

the Company's ESOP. The ESOP Trustee has sole voting power with respect to unallocated common shares owned by the Trust, as directed by the ESOP Committee appointed by the Company's Board of Directors. As to the common shares allocated to participants, 236,735 shares as of August 26, 2004, the ESOP Trustee has the power to vote such shares as directed by such ESOP Committee to the extent the participants do not direct the manner in which such shares are to be voted.

(3) The information as to the number of shares of common stock and the percent of class ownership of the Company that may be deemed beneficially owned by advisory clients of Advisory Research, Inc. ("Advisory") is from the Schedule 13G dated February 12, 2004 filed with the Securities and Exchange Commission (the "SEC"). Advisory, a registered investment advisor, is deemed to have beneficial ownership of 70,700 shares of Espey Mfg. & Electronics Corp. stock as of February 12, 2004, all of which shares are held in Advisory investment companies, trusts and accounts. Advisory, in its role as investment advisor and/or manager, reported sole voting power with respect to 70,700 shares.

(4) This information is from Form 4 dated July 29, 2004. Indirect shares represent stock being held in the Company ESOP. Direct shares include options to acquire shares which are exercisable within 60 days.

Security Ownership

The following information is furnished as of September 14, 2004 (unless otherwise indicated), as to each class of equity securities of the Company beneficially owned by all Directors and Executive Officers and by Directors and Executive Officers of the Company as a Group:

Title Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership
Common Stock		
	Paul J. Corr	2,000 - Direct (1)
"	William P. Greene	700 - Direct (1)
"	Carl Helmetag	3,400 - Direct (1) 500 - Indirect (2)
"	Garry M. Jones	400 - Direct (1) 4,923 - Indirect (3)
"	Peggy Murphy	600 - Direct (1) 3,644 - Indirect (3)
"	David A. O'Neil	3,200 - Direct (1) 2,382 - Indirect (3)
"	Barry Pinsley	34,830 - Direct (1) 3,370 - Indirect (3,4)

"	Howard Pinsley	46,634 - Direct (1) 10,712 - Indirect (3)
"	Alvin O. Sabo	1,100 - Direct (1)
"	Seymour Saslow	8,559 - Direct (1)
"	Michael W. Wool	1,100 - Direct (1)
"	Officers and Directors as a Group (13 persons)	102,523 - Direct (1) 26,614 - Indirect (2,3,4)

* Less than one percent

(1) Direct shares include options to acquire shares which are exercisable within 60 days as follows:

Name of Beneficial Owner	Exercisable Options	Name of Beneficial Owner
Paul J. Corr	1,000	William P. Greene
Carl Helmetag	400	Garry M. Jones
Peggy Murphy	600	David A. O'Neil
Barry Pinsley	1,000	Howard Pinsley
Alvin O. Sabo	900	Seymour Saslow
Michael W. Wool	1,000	

(2) Includes 500 shares owned by the trust of Molly K. Helmetag. As trustee of the trust, Mr. Helmetag is deemed beneficial owner, as defined in rule 13d-3, of the shares held by the trust. Excludes 806 shares owned by the spouse of Mr. Helmetag. Beneficial ownership is disclaimed by Mr. Helmetag.

(3) Includes shares allocated to named director or officer as of June 30, 2004 as a participant in the Company's ESOP. Each such person has the right to direct the manner in which such shares allocated to him or her are to be voted by the ESOP Trustee.

(4) Excludes 2,000 shares owned by the spouse of Barry Pinsley. Beneficial ownership of the shares is disclaimed by Mr. Pinsley.

There are no arrangements known to the Company, the execution of which may at a subsequent date, result in change of control of the Company.

During fiscal 2000, the Board of Directors and shareholders approved the 2000 Stock Option Plan (the Plan). Under the Plan, incentive and non-qualified stock options will be granted to purchase shares of common stock of the Company. As of June 30, 2004, the Plan was authorized to grant options to purchase 98,700 shares of the Company's common stock with a maximum grant of 15,000 options in any one year.

The Stock Option Committee of the Board of Directors administers the 2000 Plan. The Committee may designate, from time to time, the individuals to whom awards are made under the 2000 Plan, the amount of any such award and the price and other terms and conditions of any such award. The Committee has the full and exclusive power to interpret the 2000 Plan and may, subject to the provisions of the 2000 Plan, establish the rules for its operation.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number remain for fu und compe (exclud reflected
	(a)	(b)	
Equity compensation plans approved by security holders	37,000	18.58	
Equity compensation plans not approved by security holders	--	--	
Total	37,000		

Item 13 Certain Relationships and Related Transactions

As previously reported, the Company established and sold to the ESOP Trust on June 5, 1989, 331,224 shares of the Company's treasury stock at a price of $26.50 per share, which purchase price was funded by the Company making a cash contribution and loan. Each year, the Company makes contributions to the ESOP, which are used to make loan interest and principal payments to the Company. With each such payment, a portion of the common stock held by the ESOP is allocated to participating employees. As of June 30, 2004, there were 240,749 shares allocated to participants. The loan from the Company to the ESOP is repayable in annual installments of $1,039,605, including interest, through June 30, 2004. Effective June 30, 2004 the loan was paid in full and all shares were allocated to participants. Officers of the Company, (including Howard Pinsley) who is also a director, are eligible to participate in the ESOP and to have shares and cash allocated to their accounts and distributed to them in accordance with the terms of the ESOP.

The Company paid the law firm of Langrock, Sperry & Wool, of which Michael W. Wool, a director of the Company, is a partner, a total of $11,524 for legal services during the fiscal year ended June 30, 2004.

Item 14 Principal Accountant Fees and Services

The information required by this item is included in "Audit Fees" in our Proxy Statement for our 2004 annual meeting of shareholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

Included in Part II, Item 8, of this report:

Report of Independent Registered Public Accounting Firm 2004

Report of Independent Registered Public Accounting Firm 2003

Balance Sheets at June 30, 2004 and 2003

Statements of Income for the years ended June 30, 2004, 2003 and 2002

Statements of Changes in Stockholders' Equity for the years ended June 30, 2004, 2003 and 2002

Statements of Cash Flows for the years ended June 30, 2004, 2003 and 2002

Notes to Financial Statements

2. Financial Statement Schedules

Schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

3. Exhibits

3.1 Certificate of incorporation and all amendments thereto(filed herewith)

3.2 By-laws incorporated by reference to Exhibit 3.2 to Espey's March 31, 2004 Form 10-Q

4.1 Amended and Restated Rights Agreement, dated March 31, 1989, as amended February 12, 1999 and December 31, 1999, between Espey Mfg. & Electronics Corp. and Registrar and Transfer Company incorporated by reference to Espey's Form 8-K dated December 20, 1999

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

11.1 Statement re: Computation of Per Share Net income (filed herewith)

14.1 Code of ethics incorporated by reference to Espey's website <u>www.espey.com</u>

31.1 Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section

302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

31.2 Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.2 Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

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S I G N A T U R E S

Pursuant to the requirements of Section 13 and 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ESPEY MFG. & ELECTRONICS CORP.

/s/ Howard Pinsley

Howard Pinsley
President and
Chief Executive Officer

/s/ Howard Pinsley --------------------------- Howard Pinsley	President (Chief Executive Officer) September 14, 2004
/s/ David A. O'Neil --------------------------- David A. O'Neil	Treasurer (Principal Financial Officer) September 14, 2004
/s/ Garry M. Jones --------------------------- Garry M. Jones	Assistant Treasurer (Principal Accounting Officer) September 14, 2004
/s/ Barry Pinsley --------------------------- Barry Pinsley	Director September 14, 2004
/s/ Seymour Saslow --------------------------- Seymour Saslow	Director September 14, 2004
/s/ William P. Greene --------------------------- William P. Greene	Director September 14, 2004
/s/ Michael W. Wool	Director

---------------------------	September 14, 2004
Michael W. Wool	
/s/ Paul J. Corr	Director
---------------------------	September 14, 2004
Paul J. Corr	
/s/ Alvin O. Sabo	Director
---------------------------	September 14, 2004
Alvin O. Sabo	
/s/ Carl Helmetag	Director
---------------------------	September 14, 2004
Carl Helmetag	

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