

ESPEY MFG & ELECTRONICS CORP
Form 10-Q
May 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

Commission File Number I-4383

ESPEY MFG. & ELECTRONICS CORP.

(Exact name of registrant as specified in its charter)

NEW YORK **14-1387171**

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

233 Ballston Avenue, Saratoga Springs, New York 12866

(Address of principal executive offices)

518-245-4400

(Registrant's telephone number, including area code)

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

S Yes £ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

S Yes £ No

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

£ Large accelerated filer S Smaller reporting company
£ Accelerated filer £ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company.

£ Yes S No

At May 10, 2018, there were 2,383,723 shares outstanding of the registrant's Common stock, \$.33-1/3 par value.

ESPEY MFG. & ELECTRONICS CORP.

Quarterly Report on Form 10-Q

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PART I: FINANCIAL INFORMATION

ESPEY MFG. & ELECTRONICS CORP.

Balance Sheets

March 31, 2018 (Unaudited) and June 30, 2017

	March 31, 2018	June 30, 2017
ASSETS:		
Cash and cash equivalents	\$ 6,906,752	\$ 10,058,163
Investment securities	11,402,394	9,426,968
Trade accounts receivable, net of allowance of \$3,000	3,595,441	3,399,613
Income tax receivable	148,102	120,179
Inventories:		
Raw materials	1,419,002	1,303,259
Work-in-process	978,550	512,014
Costs related to contracts in process, net of advance payments of \$577,714 and \$1,366,504 at March 31, 2018 and June 30, 2017, respectively	7,903,603	7,863,538
Total inventories	10,301,155	9,678,811
Deferred tax assets	—	317,559
Prepaid expenses and other current assets	776,447	227,306
Total current assets	33,130,291	33,228,599
Property, plant and equipment, net	2,579,043	2,265,096
Deferred tax assets	78,489	—
Total assets	\$ 35,787,823	\$ 35,493,695
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable	\$ 1,499,895	\$ 2,250,115
Accrued expenses:		
Salaries and wages	391,213	172,045
Vacation	724,662	656,199
ESOP payable	245,752	—
Other	163,418	250,283
Payroll and other taxes withheld	58,429	46,939
Total current liabilities	3,083,369	3,375,581
Deferred tax liabilities	—	220,571
Total liabilities	3,083,369	3,596,152
Commitments and contingencies (See Note 5)		
Common stock, par value \$.33-1/3 per share		
Authorized 10,000,000 shares; Issued 3,029,874 shares as of March 31, 2018 and June 30, 2017. Outstanding 2,375,923 and 2,371,321 as of March 31, 2018 and June 30, 2017, respectively (includes 33,125 and 45,000 Unearned ESOP shares, respectively)	1,009,958	1,009,958
Capital in excess of par value	17,861,046	17,650,335

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Accumulated other comprehensive loss	(6,592)	(3,599)
Retained earnings	22,301,533		21,670,196	
	41,165,945		40,326,890	
Less: Unearned ESOP shares	(650,248)	(650,248)
Cost of 653,951 and 658,553 shares of common stock in treasury as of March 31, 2018 and June 30, 2017, respectively	(7,811,243)	(7,779,099)
Total stockholders' equity	32,704,454		31,897,543	
Total liabilities and stockholders' equity	\$ 35,787,823		\$ 35,493,695	

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

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ESPEY MFG. & ELECTRONICS CORP.

Statements of Comprehensive Income (Unaudited)

Three and Nine Months Ended March 31, 2018 and 2017

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Net sales	\$5,663,161	\$5,324,104	\$24,690,689	\$17,060,411
Cost of sales	4,407,957	4,195,599	18,898,733	13,508,014
Gross profit	1,255,204	1,128,505	5,791,956	3,552,397
Selling, general and administrative expenses	895,129	784,589	2,756,319	2,307,636
Operating income	360,075	343,916	3,035,637	1,244,761
Other income				
Interest income	42,684	39,911	109,561	63,385
Other	13,428	7,488	31,236	21,691
Total other income	56,112	47,399	140,797	85,076
Income before provision for income taxes	416,187	391,315	3,176,434	1,329,837
Provision for income taxes	98,423	112,142	801,035	385,761
Net income	\$317,764	\$279,173	\$2,375,399	\$944,076
Other comprehensive income, net of tax:				
Unrealized loss on investment securities	(2,143)	(247)	(2,993)	(1,503)
Total comprehensive income	\$315,621	\$278,926	\$2,372,406	\$942,573
Net income per share:				
Basic	\$0.14	\$0.12	\$1.02	\$0.41
Diluted	\$0.14	\$0.12	\$1.02	\$0.41
Weighted average number of shares outstanding:				
Basic	2,331,697	2,317,838	2,328,518	2,309,771
Diluted	2,349,428	2,327,797	2,338,909	2,323,431
Dividends per share:	\$0.25	\$0.25	\$0.75	\$0.75

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

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ESPEY MFG. & ELECTRONICS CORP.

Statements of Cash Flows (Unaudited)

Nine Months Ended March 31, 2018 and 2017

	March 31, 2018	March 31, 2017
Cash Flows from Operating Activities:		
Net income	\$2,375,399	\$944,076
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefits from share-based compensation	—	(9,070)
Stock-based compensation	86,675	93,293
Depreciation	318,076	323,710
ESOP compensation expense	279,502	320,835
Deferred income tax expense	19,707	50,146
Changes in assets and liabilities:		
(Increase) decrease in trade receivable, net	(195,828)	1,583,208
(Increase) decrease in income taxes receivable	(27,923)	107,615
(Increase) decrease in inventories, net	(622,344)	1,891,249
Increase in prepaid expenses and other current assets	(549,141)	(123,758)
(Decrease) increase in accounts payable	(750,220)	82,715
Increase (decrease) in accrued salaries and wages	219,168	(258,947)
Increase in vacation accrual	68,463	16,874
Decrease in ESOP payable	(33,750)	(46,250)
Decrease in other accrued expenses	(86,865)	(40,020)
Increase (decrease) in payroll and other taxes withheld	11,490	(2,531)
Net cash provided by operating activities	1,112,409	4,933,145
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(632,023)	(331,686)
Purchase of investment securities	(10,101,613)	(7,606,900)
Proceeds from sale/maturity of investment securities	8,121,986	3,974,224
Net cash used in investing activities	(2,611,650)	(3,964,362)
Cash Flows from Financing Activities:		
Dividends on common stock	(1,744,062)	(1,730,031)
Purchase of treasury stock	(109,694)	(44,335)
Proceeds from exercise of stock options	201,586	150,917
Excess tax benefits from share-based compensation	—	9,070
Net cash used in financing activities	(1,652,170)	(1,614,379)
Decrease in cash and cash equivalents	(3,151,411)	(645,596)

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Cash and cash equivalents, beginning of period	10,058,163	10,031,644
Cash and cash equivalents, end of period	\$6,906,752	\$9,386,048
Supplemental Schedule of Cash Flow Information:		
Income taxes paid	\$810,000	\$228,000

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

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ESPEY MFG. & ELECTRONICS CORP.

Notes to Financial Statements (Unaudited)

Note 1. Basis of Presentation

In the opinion of management the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the results for such periods. The results for any interim period are not necessarily indicative of the results to be expected for the full fiscal year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventories, income taxes, and stock-based compensation. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. These financial statements should be read in conjunction with the Company's most recent audited financial statements included in its report on Form 10-K for the year ended June 30, 2017. Certain reclassifications may have been made to the prior year financial statements to conform to the current year presentation.

Note 2. Investment Securities

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

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The carrying amounts of financial instruments, including cash and cash equivalents, short term investment securities, accounts receivable, accounts payable and accrued expenses, approximated fair value as of March 31, 2018 and June 30, 2017 because of the immediate or short-term maturity of these financial instruments.

Investment securities at March 31, 2018 and June 30, 2017 consist of certificates of deposit and government and municipal bonds which are classified as available-for-sale securities and have been determined to be level 1 assets. The cost, gross unrealized gains, gross unrealized losses and fair value of available-for-sale securities by major security type at March 31, 2018 and June 30, 2017 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
Certificates of deposit	\$10,439,000	\$ —	\$ —	\$10,439,000

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Municipal bonds	968,749	603	(5,958)	963,394
Total investment securities	\$ 11,407,749	\$ 603	\$ (5,958)	\$ 11,402,394
June 30, 2017				
Certificates of deposit	\$ 8,557,000	\$ —	\$ —	\$ 8,557,000
Municipal bonds	871,872	258	(2,162)	869,968
Total investment securities	\$ 9,428,872	\$ 258	\$ (2,162)	\$ 9,426,968

The portfolio is diversified and highly liquid and primarily consists of investment grade fixed income instruments. At March 31, 2018, the Company did not have any investments in individual securities that have been in a continuous loss position considered to be other than temporary.

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As of March 31, 2018 and June 30, 2017, the remaining contractual maturities of available-for-sale securities were as follows:

	Years to Maturity			
	Less than	One to		
	One Year	Five	Years	Total
March 31, 2018				
Available-for-sale	\$ 10,528,099	\$ 874,295		\$ 11,402,394