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Form Type: **10-Q**

Job#: **27333**

Proof #: **4**

No. of Pages: **44**

FILING: 2/14/2022

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Submission Data File

General Information	
Form Type*	10-Q
Contact Name	Computershare
Contact Phone	732-512-3048
Filer Accelerated Status*	Not Applicable
Filer File Number	
Filer CIK*	0000033533 (ESPEY MFG & ELECTRONICS CORP)
Filer CCC*	**********
Filer is Shell Company*	N
Filer is Smaller Reporting Company	Yes
Confirming Copy	No
Notify via Website only	No
Return Copy	No
SROS*	NYSE
Period*	12-31-2021
Emerging Growth Company	No
Elected not to use extended transition period	No
(End General Information)	

Document Information	
File Count*	12
Document Name 1*	form10q-27333_esp.htm
Document Type 1*	10-Q
Document Description 1	10-Q
Document Name 2*	ex10-14.htm
Document Type 2*	EX-10.14
Document Description 2	EX-10.14
Document Name 3*	ex31-1.htm
Document Type 3*	EX-31.1
Document Description 3	EX-31.1
Document Name 4*	ex31-2.htm
Document Type 4*	EX-31.2
Document Description 4	EX-31.2
Document Name 5*	ex32-1.htm
Document Type 5*	EX-32.1
Document Description 5	EX-32.1
Document Name 6*	ex32-2.htm
Document Type 6*	EX-32.2
Document Description 6	EX-32.2
Document Name 7*	espy-logo.jpg
Document Type 7*	GRAPHIC
Document Description 7	Graphic
Document Name 8*	esp-20211231.xsd
Document Type 8*	EX-101.SCH
Document Description 8	XBRL Schema File
Document Name 9*	esp-20211231_cal.xml
Document Type 9*	EX-101.CAL
Document Description 9	XBRL Calculation File
Document Name 10*	esp-20211231_def.xml
Document Type 10*	EX-101.DEF
Document Description 10	XBRL Definition File
Document Name 11*	esp-20211231_lab.xml
Document Type 11*	EX-101.LAB
Document Description 11	XBRL Label File
Document Name 12*	esp-20211231_pre.xml
Document Type 12*	EX-101.PRE
Document Description 12	XBRL Presentation File

(End Document Information)

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

FORM 10-Q

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

For the quarterly period ended December 31, 2021

OR

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

Commission File Number 1-4383

ESPEY MFG. & ELECTRONICS CORP.

(Exact name of registrant as specified in its charter)

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

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

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

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

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically 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).

☒ Yes ☐ No

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

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

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

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

At February 11, 2022, there were 2,702,633 shares outstanding of the registrant's Common stock, $.33-1/3 par value.

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

PART I: FINANCIAL INFORMATION
ESPEY MFG. & ELECTRONICS CORP.
Balance Sheets
December 31, 2021 (Unaudited) and June 30, 2021

	December 31, 2021	June 30, 2021
ASSETS		
Cash and cash equivalents	$ 7,018,282	$ 6,802,712
Investment securities	3,057,000	3,092,000
Trade accounts receivable, net of allowance of $3,000	4,888,399	5,353,781
Income tax receivable	252,643	249,602
Inventories:		
Raw materials	2,074,883	2,111,058
Work-in-process	242,094	326,198
Costs related to contracts in process	17,012,234	16,354,636
Total inventories	19,329,211	18,791,892
Prepaid expenses and other current assets	808,857	700,297
Total current assets	35,354,392	34,990,284
Property, plant and equipment, net	2,833,961	2,990,519
Total assets	$ 38,188,353	$ 37,980,803
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 2,585,174	$ 2,718,173
Accrued expenses:		
Salaries and wages	649,089	475,667
Vacation	656,292	672,611
ESOP payable	168,318	—
Other	57,037	126,014
Payroll and other taxes withheld	278,924	409,881
Contract liabilities	2,904,746	3,077,605
Total current liabilities	7,299,580	7,479,951
Deferred tax liabilities	134,649	168,557
Total liabilities	7,434,229	7,648,508
Commitments and contingencies (See Note 5)		
Common stock, par value $.33-1/3 per share		
Authorized 10,000,000 shares; Issued 3,129,874 shares as of December 31, 2021 and June 30, 2021. Outstanding 2,702,633 shares as of December 31, 2021 and June 30, 2021 (includes 267,861 and 279,429 Unearned ESOP shares, respectively)	1,043,291	1,043,291
Capital in excess of par value	23,120,663	23,026,096
Accumulated other comprehensive loss	(2,361)	(2,361)
Retained earnings	17,741,992	17,414,730
	41,903,585	41,481,756
Less: Unearned ESOP shares	(5,110,770)	(5,110,770)
Cost of 427,241 shares of common stock in treasury as of December 31, 2021 and June 30, 2021	(6,038,691)	(6,038,691)
Total stockholders' equity	30,754,124	30,332,295
Total liabilities and stockholders' equity	$ 38,188,353	$ 37,980,803

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

ESPEY MFG. & ELECTRONICS CORP.
Statements of Comprehensive Income (Loss) (Unaudited)
Three and Six Months Ended December 31, 2021 and 2020

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Net sales	$ 7,458,050	$ 6,962,065	$ 15,003,482	$ 14,227,580
Cost of sales	6,251,233	6,248,604	12,443,567	12,386,745
Gross profit	1,206,817	713,461	2,559,915	1,840,835
Selling, general and administrative expenses	1,186,168	945,478	2,180,990	1,860,104
Operating income (loss)	20,649	(232,017)	378,925	(19,269)
Other income				
Interest income	1,716	1,753	3,312	16,970
Other	10,105	13,734	28,076	16,861
Total other income	11,821	15,487	31,388	33,831
Income (loss) before provision (benefit) for income taxes	32,470	(216,530)	410,313	14,562
Provision (benefit) for income taxes	11,269	(35,524)	83,051	5,745
Net income (loss)	$ 21,201	$ (181,006)	$ 327,262	$ 8,817
Other comprehensive income, net of tax:				
Unrealized gain on investment securities	—	2,712	—	1,038
Total comprehensive income (loss)	$ 21,201	$ (178,294)	$ 327,262	$ 9,855
Net income (loss) per share:				
Basic	$ 0.01	$ (0.08)	$ 0.14	$ 0.00
Diluted	$ 0.01	$ (0.08)	$ 0.14	$ 0.00
Weighted average number of shares outstanding:				
Basic	2,429,051	2,402,665	2,426,159	2,402,649
Diluted	2,429,199	2,402,665	2,426,233	2,404,043
Dividends per share:	$ —	$ 0.25	$ —	$ 0.50

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

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Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity (Unaudited)
Three Months Ended December 31, 2021

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

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

Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity (Unaudited)
Six Months Ended December 31, 2021

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

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

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Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity (Unaudited)
Three Months Ended December 31, 2020

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Shares	Treasury Amount	Unearned ESOP Shares	Total Stockholders' Equity
Balance as of September 30, 2020	2,402,633	$ 1,009,958	$ 19,120,380	$ (4,781)	$ 18,386,755	627,241	$ (7,650,805)	$ —	$ 30,861,507
Comprehensive loss:									
Net loss					(181,006)				(181,006)
Other comprehensive income, net of tax of $721				2,712					2,712
Total comprehensive loss									(178,294)
Stock-based compensation			33,707						33,707
Dividends paid on common stock $0.25 per share					(600,659)				(600,659)
Sale of stock to ESOP	300,000	33,333	3,841,553			(200,000)	1,612,114	(5,487,000)	—
Balance as of December 31, 2020	2,702,633	$ 1,043,291	$ 22,995,640	$ (2,069)	$ 17,605,090	427,241	$ (6,038,691)	$ (5,487,000)	$ 30,116,261

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

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Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity (Unaudited)
Six Months Ended December 31, 2020

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Shares	Treasury Amount	Unearned ESOP Shares	Total Stockholders' Equity
Balance as of June 30, 2020	2,402,633	$ 1,009,958	$ 19,073,213	$ (3,107)	$ 18,797,589	627,241	$ (7,650,805)	$ —	$ 31,226,848
Comprehensive income:									
Net income					8,817				8,817
Other comprehensive income, net of tax of $276				1,038					1,038
Total comprehensive income									9,855
Stock-based compensation			80,874						80,874
Dividends paid on common stock $0.50 per share					(1,201,316)				(1,201,316)
Sale of stock to ESOP	300,000	33,333	3,841,553			(200,000)	1,612,114	(5,487,000)	—
Balance as of December 31, 2020	2,702,633	$ 1,043,291	$ 22,995,640	$ (2,069)	$ 17,605,090	427,241	$ (6,038,691)	$ (5,487,000)	$ 30,116,261

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

ESPEY MFG. & ELECTRONICS CORP.
Statements of Cash Flows (Unaudited)
Six Months Ended December 31, 2021 and 2020

	December 31, 2021	December 31, 2020
Cash Flows from Operating Activities:		
Net income	$ 327,262	$ 8,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	94,567	80,874
Depreciation	253,846	271,341
ESOP compensation expense	168,318	56,274
Deferred income tax benefit	(33,908)	(35,524)
Changes in assets and liabilities:		
Decrease in trade accounts receivable	465,382	4,805,803
Increase in income taxes receivable	(3,041)	(86,274)
Increase in ESOP receivable due to dividends on unallocated shares	—	(18,726)
Increase in inventories	(537,319)	(1,706,735)
Increase in prepaid expenses and other current assets	(108,560)	(109,615)
(Decrease) increase in accounts payable	(132,999)	392,287
Increase (decrease) in accrued salaries and wages	173,422	(125,060)
Decrease in vacation accrual	(16,319)	(23,674)
Decrease in ESOP Payable	—	(56,274)
Decrease in other accrued expenses	(68,977)	(228,136)
(Decrease) increase in payroll and other taxes withheld	(130,957)	276,315
Decrease in contract liabilities	(172,859)	(524,947)
Decrease in income taxes payable	—	(47,707)
Net cash provided by operating activities	277,858	2,929,039
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(97,288)	(29,173)
Purchase of investment securities	(2,061,000)	(2,391,686)
Proceeds from sale/maturity of investment securities	2,096,000	4,331,407
Net cash (used in) provided by investing activities	(62,288)	1,910,548
Cash Flows from Financing Activities:		
Dividends on common stock	—	(1,201,316)
Net cash used in financing activities	—	(1,201,316)
Increase in cash and cash equivalents	215,570	3,638,271
Cash and cash equivalents, beginning of period	6,802,712	5,402,122
Cash and cash equivalents, end of period	$ 7,018,282	$ 9,040,393
Supplemental Schedule of Cash Flow Information:		
Income taxes paid	$ 120,000	$ 175,250

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 normal recurring adjustments) necessary for a fair presentation of the results for such periods. The results for any interim period are not necessarily indicative of the results to be expected for the full fiscal year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventories, income taxes, and stock-based compensation. Specific to inventories, including work-in-process and contracts in process, management evaluates, quarterly, those estimates used in determining the cost to complete for each contract on Espey Mfg. & Electronics Corp. (the "Company") sales backlog. The change in estimates may affect the reported amount of inventories and gross profit in the current or a future period. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. These financial statements should be read in conjunction with the Company's most recent audited financial statements included in its report on Form 10-K for the year ended June 30, 2021. Certain reclassifications may have been made to the prior year financial statements to conform to the current year presentation.

Note 2. Investment Securities

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

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

The carrying amounts of financial instruments, including cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued expenses, approximated fair value as of December 31, 2021 and June 30, 2021 because of the immediate or short-term maturity of these financial instruments.

Investment securities at December 31, 2021 and June 30, 2021 consist of certificates of deposit 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 December 31, 2021 and June 30, 2021 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Certificates of deposit	$ 3,057,000	$ —	$ —	$ 3,057,000
June 30, 2021				
Certificates of deposit	$ 3,092,000	$ —	$ —	$ 3,092,000

The portfolio is diversified and highly liquid and primarily consists of investment grade fixed income instruments. At December 31, 2021, 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 December 31, 2021 and June 30, 2021, the remaining contractual maturities of available-for-sale securities were as follows:

	Years to Maturity					
	Less than One Year		One to Five Years		Total	
December 31, 2021						
Available-for-sale	$	3,057,000	$	—	$	3,057,000
June 30, 2021						
Available-for-sale	$	3,092,000	$	—	$	3,092,000

Note 3. Net Income per Share

Basic net income per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company. The computation of diluted net income per share, excluded options to purchase 316,912 shares of our common stock for the three and six months ended December 31, 2021 and the computation of diluted net (loss) income per share, excluded options to purchase 315,337 and 253,312 shares for the three and six months ended December 31, 2020, as the effect of including them would be anti-dilutive. As unearned shares owned by the Company's sponsored leveraged employee stock ownership plan (the "ESOP") are released or committed-to-be-released, the shares become outstanding for earnings-per-share computations.

Note 4. Stock Based Compensation

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

Total stock-based compensation expense recognized in the statements of comprehensive income for the three-month periods ended December 31, 2021 and 2020 was $41,791 and $33,707, respectively, before income taxes. The amount of this stock-based compensation expense related to non-qualified stock options ("NQSO") for the three-month periods ended December 31, 2021 and 2020, was $8,757 and $5,143, respectively. The deferred tax benefit related to the NQSO's as of December 31, 2021 and 2020 was approximately $1,839 and $1,080, respectively. Total stock-based compensation expense recognized in the statements of comprehensive income for the six-month periods ended December 31, 2021 and 2020, was $94,567 and $80,874, respectively, before income taxes. The amount of this stock-based compensation expense related to non-qualified stock options ("NQSO") for the six-month periods ended December 31, 2021 and 2020, was $16,123 and $18,131, respectively. The deferred tax benefit related to the NQSO's as of December 31, 2021 and 2020 was approximately $3,386 and $3,808, respectively. The remaining stock option expense in each year related to incentive stock options ("ISO") which are not deductible by the corporation when exercised, assuming a qualifying disposition and as such no deferred tax benefit was established related to these amounts.

As of December 31, 2021, there was approximately $219,311 of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over the next 2 years, of which $179,408 relates to ISO's and $39,903 relates to NQSO's. The total deferred tax benefit related to these awards is expected to be $8,380.

The Company has one employee stock option plan under which options or stock awards may be granted, the 2017 Stock Option and Restricted Stock Plan (the "2017 Plan"). The Board of Directors may grant options to acquire shares of common stock to employees and non-employee directors of the Company at the fair market value of the common stock on the date of grant. The maximum aggregate number of shares of Common Stock subject to options or awards to non-employee directors is 133,000 and the maximum aggregate number of shares of Common Stock subject to options or awards granted to non-employee directors during any single fiscal year is the lesser of 13,300 and 33 1/3% of the total number of shares subject to options or awards granted in such fiscal year. The maximum number of shares subject to options or awards granted to any individual employee may not exceed 15,000 in a fiscal year. Generally, options granted have a two-year vesting period based on two years of continuous service and have a ten-year contractual life. Option grants provide for accelerated vesting if there is a change in control. The plan allows for cancelled or expired options to be re-granted to participants at a later date. Shares issued upon the exercise of options are from those held in Treasury. Options covering 400,000 shares are authorized for issuance under the 2017 Plan. As of December 31, 2021, 303,904 shares have been granted, of which 228,062 are outstanding, and 171,938 remain available for grant. While no further grants of options may be made under the Company's 2007 Stock Option and Restricted Stock Plan, as of December 31, 2021, 98,050 options were outstanding under such plan of which all are vested and exercisable.

ASC 718 requires the use of a valuation model to calculate the fair value of stock-based awards. The Company has elected to use the Black-Scholes option valuation model, which incorporates various assumptions including those for dividend yield, volatility, expected life and interest rates.

The table below outlines the weighted average assumptions that the Company used to calculate the fair value of each option award for the six months ended December 31, 2021 and 2020.

	December 31, 2021	December 31, 2020
Dividend yield	0%	5.54%
Company's expected volatility	25.56%	23.41%
Risk-free interest rate	0.93%	0.36%
Expected term	5.4 yrs	5.4 yrs
Weighted average fair value per share of options granted during the period	$3.72	$1.59

Effective March 9, 2021, the Company suspended the payment of its regular quarterly dividend. For the six months ended December 31, 2020, the Company declared and paid regular cash dividends of $0.50 per share, and for the six months ended December 31, 2021 the Company paid no cash dividends. Expected stock price volatility is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the expected life of the options. The expected option term (in years) represents the estimated period of time until exercise and is based on actual historical experience.

The following table summarizes stock option activity during the six months ended December 31, 2021:

	Employee Stock Options Plan			
	Number of Shares Subject to Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at July 1, 2021	304,662	$ 23.37	6.06	
Granted	77,550	$ 14.76	9.56	
Exercised	—	—	—	
Forfeited or expired	(56,100)	$ 20.53	—	
Outstanding at December 31, 2021	326,112	$ 21.81	6.49	$ 2,116
Vested or expected to vest at December 31, 2021	307,578	$ 22.16	6.32	$ 2,029
Exercisable at December 31, 2021	220,287	$ 24.58	5.15	$ 0

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the closing sale price of the Company's common stock as reported on the NYSE American on December 31, 2021 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if all option holders had exercised their options on December 31, 2021. This amount changes based on the fair market value of the Company's common stock. The intrinsic value of options exercised during the six months ended December 31, 2021 and 2020 was $0, resulting from no option exercise activity during those periods.

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The following table summarizes changes in non-vested stock options during the six months ended December 31, 2021:

	Weighted Number of Shares Subject to Option	Average Grant Date Fair Value (per Option)
Non-vested at July 1, 2021	103,450	$ 2.22
Granted	77,550	$ 3.72
Vested	(43,025)	$ 3.03
Forfeited or expired	(32,150)	$ 2.58
Non-vested at December 31, 2021	105,825	$ 2.89

Note 5. Commitments and Contingencies

The Company from time to time, enters into standby letters of credit agreements with financial institutions primarily relating to the guarantee of future performance on certain contracts. Contingent liabilities on outstanding standby letters of credit agreements aggregated to zero at December 31, 2021 and June 30, 2021. The Company, as a U.S. Government contractor, is subject to audits, reviews, and investigations by the U.S. Government related to its negotiation and performance of government contracts and its accounting for such contracts. Failure to comply with applicable U.S. Government standards by a contractor may result in suspension from eligibility for award of any new government contract and a guilty plea or conviction may result in debarment from eligibility for awards. The government may, in certain cases, also terminate existing contracts, recover damages, and impose other sanctions and penalties. As a result of contract audits the Company will determine a range of possible outcomes and in accordance with ASC 450 “Contingencies” the Company will accrue amounts within a range that appears to be its best estimate of a possible outcome. Adjustments are made to accruals, if any, periodically based on current information.

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

Note 6. Revenue

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

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

Total revenue recognized for the three and six months ended December 31, 2021 based on units delivered was $6,100,228 and $12,592,464, respectively, compared to $5,865,878 and $11,724,584 for the same periods in fiscal year 2021. Total revenue recognized for the three and six months ended December 31, 2021 based on milestones achieved was $1,357,822 and $2,411,018, respectively, compared to $1,096,187 and $2,502,996 for the same periods in fiscal year 2021.

The Company offers a standard one-year product warranty. Product warranties offered by the Company are classified as assurance-type warranties, which means, the warranty only guarantees that the good or service functions as promised. Based on this, the provided warranty is not considered to be a distinct performance obligation. The impact of variable consideration has been considered but none identified which would be required to be allocated to the transaction price as of December 31, 2021. Our payment terms are generally 30-60 days.

Contract liabilities were $2,904,746 and $3,077,605 as of December 31, 2021 and June 30, 2021, respectively. The decrease in contract liabilities is primarily due to revenue recognized, offset in part by, the advance collection of cash on specific contracts. The Company used the practical expedient to expense incremental costs incurred to obtain a contract when the contract term is less than one year.

The Company's backlog at December 31, 2021 totaling approximately $70.1 million is projected, based on expected due dates, to be recognized in the following fiscal years: 30% in 2022; 43% in 2023; 21% in 2024, and 6% thereafter.

Note 7. Recently Issued Accounting Standards

Recent Accounting Pronouncements Adopted

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." ASU 2019-12 amends ASC 740 to simplify the accounting for income taxes by removing certain exceptions for investments, intraperiod allocations and interim calculations, and adding guidance to reduce complexity in the accounting standard under the FASB's simplification initiative. ASU 2019-12 is effective for public entities for fiscal years beginning after December 15, 2020. Upon adoption, the amendments in ASU 2019-12 should be applied on a prospective basis to all periods presented. The Company adopted the new guidance under ASU 2019-12 in the first quarter of fiscal year 2021 and removed the exception for intraperiod allocations from its interim period tax provision calculation, accordingly. The removal of the exception for intraperiod allocations did not have a material impact on the Company.

Note 8. Employee Stock Ownership Plan

The Company sponsors a leveraged employee stock ownership plan (the "ESOP") that covers all nonunion employees who work 1,000 or more hours per year and are employed on June 30. Prior to December 1, 2020, the ESOP owned 469,119 shares, all of which were allocated to employees. On December 1, 2020, pursuant to a Stock Purchase Agreement dated as of such date, the Company, by selling 300,000 shares of its common stock, par value $0.33 1/3 per share, to the Espey Mfg. & Electronics Corp. Employee Stock Ownership Plan Trust, provided more shares to be allocated to employees for services rendered over the next 15 years. The ESOP paid $18.29 per share, for an aggregate purchase price of $5,487,000. The determination of the purchase price was based on a fairness opinion obtained by an independent valuation firm. The ESOP borrowed from the Corporation an amount equal to the purchase price. The loan will be repaid in fifteen (15) equal annual installments of principal. The Board of Directors has fixed the interest rate and the unpaid balance will bear interest at a fixed rate of 3.00% per annum.

The Board of Directors of the Company had approved a purchase price per share equal to the lesser of the trading value on the day of closing or the lowest price listed in the valuation established by the independent valuation firm plus $0.25. The valuation identified a range of $18.04 - $19.43 per share.

In making the sale, the Company relied on the exemption from registration under Section 4(2) of the Securities Act of 1933, as amended, because the shares sold were offered only to the ESOP.

After giving effect to the transaction, the ESOP owned 769,119 shares of the Company's 2,702,633 outstanding shares of common stock as of December 1, 2020.

The Company makes annual contributions to the ESOP equal to the ESOP's debt service less dividends on unallocated shares received by the ESOP. Any dividends on unallocated shares received by the ESOP are used to pay debt service. Any dividends on allocated ESOP shares are recorded as a reduction of retained earnings. As the debt is repaid, shares are released and allocated to active employees, based on the proportion of debt service paid in the year. The Company accounts for its ESOP in accordance with FASB ASC 718-40. Accordingly, the shares purchased by the ESOP are reported as Unearned ESOP shares in the balance sheets and the statements of changes in stockholders' equity. As shares are released or committed-to-be-released, the Company reports compensation expense equal to the current average market price of the shares, and the shares become outstanding for earnings-per-share (EPS) computations. ESOP compensation expense was $83,812 and $56,274 for the three-month periods ended December 31, 2021 and 2020, respectively. ESOP compensation expense was $168,318 and $56,274 for the six-month periods ended December 31, 2021 and 2020, respectively.

The ESOP shares as of December 31, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Allocated shares	478,935	468,663
Committed-to-be-released shares	11,568	2,939
Unreleased shares	267,861	297,061
Total shares held by the ESOP	758,364	768,663
Fair value of unreleased shares	$ 3,806,305	$ 5,620,394

The Company may at times be required to repurchase shares at the ESOP participants' request at the shares' fair market value. During the three and six months ended December 31, 2021 and 2020, the Company did not repurchase shares previously held by the ESOP.

The ESOP allows for eligible participants to take whole share distributions from the Plan on specific dates in accordance with the provision of the Plan. Share distributions from the ESOP during the six months ended December 31, 2021 and 2020 totaled 8,285 and 456 shares, respectively.

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

Overview

Espey Mfg. & Electronics Corp. (“Espey”) is a power electronics design and original equipment manufacturing (OEM) company with a long history of developing and delivering highly reliable products for use in military and severe environment applications. Design, manufacturing, and testing is performed in our 150,000+ square foot facility located at 233 Ballston Ave, Saratoga Springs, New York. Espey is classified as a “smaller reporting company” for purposes of the reporting requirements under the Securities Exchange Act of 1934, as amended. Espey’s common stock is publicly-traded on the NYSE American under the symbol “ESP.”

Espey began operations after incorporation in New York in 1928. We strive to remain competitive as a leader in high power energy conversion and transformer solutions through the design and manufacture of new and improved products by using advanced and “cutting edge” electronics technologies.

Espey is ISO 9001:2015 and AS9100:2016 certified. Our primary products are power supplies, power converters, filters, power transformers, magnetic components, power distribution equipment, UPS systems, antennas and high power radar systems. The applications of these products include AC and DC locomotives, shipboard power, shipboard radar, airborne power, ground-based radar, and ground mobile power.

Espey services include design and development to specification, build to print, design services, design studies, environmental testing services, metal fabrication, painting services, and development of automatic testing equipment. Espey is vertically integrated, meaning that the Company produces individual components (including inductors), populates printed circuit boards, fabricates metalwork, paints, wires, qualifies, and fully tests items, mechanically, electrically and environmentally, in house. Portions of the manufacturing and testing process are subcontracted to vendors from time to time.

The Company markets its products primarily through its own direct sales organization and through outside sales representatives. Business is solicited from large industrial manufacturers and defense companies, the government of the United States, foreign governments and major foreign electronic equipment companies. Espey is also on the eligible list of contractors with the United States Department of Defense. We pursue opportunities for prime contracts directly with the Department of Defense and are generally automatically solicited by Department of Defense procurement agencies for their needs falling within the major classes of products produced by the Company. Espey contracts with the Federal Government under cage code 20950 as Espey Mfg. & Electronics Corp.

There is competition in all classes of products manufactured by the Company, ranging from divisions of the largest electronic companies, to many small companies. The Company's sales do not represent a significant share of the industry's market for any class of its products. The principal methods of competition for electronic products of both a military and industrial nature include, among other factors, price, product performance, the experience of the particular company and history of its dealings in such products.

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

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

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

The total backlog at December 31, 2021 was approximately $70.1 million, which included $45.8 million from four significant customers, compared to approximately $60.1 million at December 31, 2020, which included $26.5 million from three significant customers. The Company's total backlog represents the estimated remaining sales value of work to be performed under firm contracts. The funded portion of this backlog at December 31, 2021 is approximately $69.7 million. This includes items that have been authorized and appropriated by Congress and/or funded by the customer. The unfunded backlog at December 31, 2021 is approximately $0.4 million and represents two firm multi-year orders from a single customer for which funding has not yet been appropriated by Congress or funded by our customer. While there is no guarantee that future budgets and appropriations will provide funding for individual programs, management has included in unfunded backlog only those programs that it believes are likely to receive funding based on discussions with customers and program status. The unfunded backlog at December 31, 2020 was approximately $2.4 million, comprised of the same multi-year orders from a single customer. Contracts are subject to modification, change or cancellation, and the Company accounts for these changes as they are probable and estimable. The Company evaluates the impact of any scope modifications and will adjust reserves as information is known and estimable.

Successful conversion of engineering program backlog into sales is largely dependent on the execution and completion of our engineering design efforts. It is not uncommon to experience technical or scheduling delays which arise from time to time as a result of, among other reasons, design complexity, the availability of personnel with the requisite expertise, and the requirements to obtain customer approval at various milestones. Cost overruns which may arise from technical and schedule delays could negatively impact the timing of the conversion of backlog into sales, or the profitability of such sales. We continue to experience technical and schedule delays with our major development programs. The issues causing the delays are being resolved as soon as possible. Engineering programs in both the funded and unfunded portions of the current backlog aggregate $7.2 million.

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

Management expects revenues in fiscal year 2022 to be higher than revenues during fiscal year 2021 and expects to generate net income per share as compared to the net loss per share realized during fiscal year 2021. These expectations are driven by orders already in our sales backlog.

Management continues to closely monitor the impact of evolving workforce and supplier constraints, primarily from the effects from the pandemic, to our planned delivery schedules. We continue to experience disruptions from workforce absences due to COVID-19 illnesses and direct contact exposures, resulting in self-isolating protocols to be followed to ensure the safety of company personnel. In addition, we are experiencing disruptions from workforce turnover, as local businesses emerging from the pandemic compete for personnel. Many of our positions require certain skillsets resulting in longer than average time to fill position vacancies. Some company suppliers continue to incur similar disruptions, in addition to incurring longer lead times on certain raw materials.

The Company currently expects new orders in fiscal 2022 to approximate the $38.5 million in new orders received in fiscal year 2021. As market factors including competition and product costs impact gross profit margins, management will continue to evaluate our sales strategy, employment levels, and facility costs.

New orders received in the first six months of fiscal year 2022 were approximately $19.5 million as compared to $19.4 million new orders received in the first six months of fiscal 2021. It is presently anticipated that a minimum of $21 million of orders comprising the December 31, 2021 backlog will be filled during the fiscal year ending June 30, 2022 subject, however, to the impact of the factors identified above. The minimum of $21 million does not include any shipments, which may be made against orders subsequently received during the fiscal year ending June 30, 2022.

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In addition to the backlog, the Company currently has outstanding opportunities representing approximately $63 million in the aggregate as of February 1, 2022 for both repeat and new programs. The outstanding quotations encompass various new and previously manufactured power supplies, transformers, and subassemblies. However, there can be no assurance that the Company will acquire any of the anticipated orders described above, many of which are subject to allocations of the United States defense spending and factors affecting the defense industry.

A significant portion of the Company's business is the production of military and industrial electronic equipment for use by the U.S. and foreign governments and certain industrial customers. Net sales to four significant customers represented 59% of the Company's total sales for the three-month period ended December 31, 2021. Net sales to three significant customers represented 47% of the Company's total sales for the three-month period ended December 31, 2020. Net sales to five significant customer represented 67% of the Company's total sales for the six-month period ended December 31, 2021. Net sales to four significant customers represented 58% of the Company's total sales for the six-month period ended December 31, 2020. Improvement has been made in customer concentrations recently. However, this high customer concentration level continues to present significant risk. A loss of one of these customers or programs related to these customers, or customer requested deferrals of product delivery could significantly impact the Company.

Historically, a small number of customers have accounted for a large percentage of the Company's total sales in any given fiscal year. Management continues to pursue opportunities with current and new customers with an overall objective of lowering the concentration of sales, mitigating excessive reliance upon a single major product of a particular program and minimizing the impact of the loss of a single significant customer. Given the nature of our business, we believe our existing sales order backlog is fairly diversified in terms of customers and the category of products on order.

Critical Accounting Policies and Estimates

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

Revenue

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

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

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

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

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Inventory

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

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

The estimation of total cost at completion of a contract is subject to numerous variables involving contract costs and estimates as to the length of time to complete the contract. Given the significance of the estimation processes and judgments described above, it is possible that materially different amounts of expected sales and contract costs could be recorded if different assumptions were used, based on changes in circumstances, in the estimation process. When a change in expected sales value or estimated cost is determined, the change is reflected in current period earnings.

Contract Liabilities

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

Results of Operations

Net sales increased for the three months ended December 31, 2021 to $7,458,050 as compared to $6,962,065 for the same period in 2020. Net sales for the six months ended December 31, 2021 increased to $15,003,482 as compared to $14,227,580 for the same period in 2020. For the three months ended December 31, 2021, sales increased primarily from an increase in magnetic sales. For the six months ended December 31, 2021, the increase in sales is primarily due to an increase in build to print and magnetic sales, offset in part, by a decline in power supply, repair and antenna shipments. In general, sales fluctuations within product categories will occur during a comparable fiscal period as the direct result of product mix, influenced by the duration of specific programs and the contractual terms of firm orders placed for product and services under those programs including contract value, scope of work and duration. Deliverables within firm contracts are often subject to delivery schedules which also contributes to sales fluctuations between comparable periods. Internal and external constraints, at times, impact our ability to ship. The impact of the COVID-19 pandemic continues to impact raw material delivery schedules with longer lead times on certain raw materials and lends to unplanned employee absences due to sickness and self-isolating protocols in place. In addition, we are experiencing disruptions from workforce turnover, as local businesses emerging from the pandemic compete for personnel. These disruptions have a direct impact on our ability to optimally build, test, inspect and ship product. Specific to the current three and six month periods discussed above, the fluctuations when compared to the same periods last year were primarily the result of contractual timing offset, in part, by internal and external constraints, all discussed above.

In addition, we continued to be constrained by (i) engineering design changes required to meet customer requirements, (ii) certain supplier product non-conformances, (iii) delays in obtaining timely resolutions on issues encompassing build to print customer-owned drawings, and (iv) an increase in lead times for many parts, including certain electronic components due to industry shortages and volatility within the power electronics industry. Engineering, program management, and supply chain personnel are working closely with our customers and suppliers to execute on our past due deliveries and we do not expect this situation to affect future business opportunities.

Gross profits for the three months ended December 31, 2021 and 2020 were $1,206,817 and $713,461, respectively. Gross profit as a percentage of sales was approximately 16.2% and 10.2%, for the same periods, respectively. For the six months ended December 31, 2021 and 2020, gross profits were $2,559,915 and $1,840,835, respectively. Gross profit as a percentage of sales was 17.1% and 12.9%, for the same periods, respectively. The primary factors in determining the change in gross profit and net income are overall sales levels and product mix. The gross profits on mature products and build to print contracts are typically higher as compared to products which are still in the engineering development stage or in early stages of production. In the case of the latter, the Company can incur what it refers to as "loss contracts," primarily on engineering design contracts in which the Company invests with the objective of developing future product sales. In any given accounting period the mix of product shipments between higher margin programs and less mature programs, and expenditures associated with loss contracts, has a significant impact on gross profit and net income.

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Several factors contributed to an increase in gross profit and the gross profit percentage in the three months ended December 31, 2021 as compared to the same period in 2020. First, there was an increase in sales on magnetic shipments and the product mix comprising those shipments. This improvement resulted mostly from higher sales and improved margins on a select production contract when compared to sales for the same period last year. Second, the current quarter profit on build to print shipments improved on fairly comparable sales, in aggregate, between periods, resulting from product mix, and is primarily attributable to a specific program in which there were no comparable sales in the prior year. Finally, specific to the prior year, gross profit was negatively impacted by an inventory write-down pertaining to a certain design and production contract serving the airline industry which was cancelled by the customer. These improvements during the current quarter were offset, to a lesser extent, by the expensing of remaining development costs formerly capitalized in inventory on an engineering design program in which our customer has delayed unit qualification testing and for which production units are not expected to be manufactured in the near term.

The improvement in gross profit and the gross profit percentage in the six months ended December 31, 2021 as compared to the same period in 2020 resulted primarily from an increase in sales and the gross profit percentage on magnetic and build to print shipments resulting primarily from product mix. The increase in gross profits on magnetic shipments was primarily driven by the increase in sales on certain mature product when compared to the same period last year. The increase in gross profits on build to print shipments was primarily driven by the increase in sales on certain mature product when compared to the same period last year, as well as, sales and higher margins on a specific program in which there were no comparable sales in the prior year. This improvement in build to print shipments was offset, in part, by increased spending on as specific build to print contract when compared to the same period last year. Comparatively, and specific to the prior year, gross profit was negatively impacted by an inventory write-down pertaining to a certain design and production contract serving the airline industry which was cancelled by the customer. Gross profit in the current year was reduced, in part, by an increase in spending incurred on several power supply design contracts when compared to the same period last year. In addition, gross profit was reduced, to a lesser extent, by the expensing of remaining development costs formerly capitalized in inventory on an engineering power supply design contract in which our customer has delayed unit qualification testing and for which production units are not expected to be manufactured in the near term.

Selling, general and administrative expenses were $1,186,168 for the three months ended December 31, 2021, an increase of $240,690, compared to the three months ended December 31, 2020. Selling, general and administrative expenses were $2,180,990 for the six months ended December 31, 2021, an increase of $320,886 compared to the six months ended December 31, 2020. The increase for the three months ended December 31, 2021 as compared to the same period in 2020 relates primarily to the costs incurred resulting from the change in senior management announced at the end of the quarter. The increase for the six months ended December 31, 2021 as compared to the same period in 2020 resulted primarily from the costs recorded in the current quarter as the result of a change in senior management, the increase in costs incurred to recruit and fill company-wide position vacancies, the increase in costs associated with the stock option grant awarded to employees in the first quarter of the current fiscal year, the increase in costs associated with the current year allocation of shares from the leveraged ESOP transaction dated December 1, 2020 which did not have comparable expense in the six month period last year as the prior leveraged ESOP transaction was fully allocated as of June 30, 2020, an increase in professional services due to timing of progress billings, and an increase in travel. These increases were offset, in part, by a decrease in direct payroll expense primarily from the department restructuring of program management personnel and the timing of those changes.

Other income for the three months ended December 31, 2021 and 2020 was $11,821 and $15,487, respectively. Other income for the six months ended December 31, 2021 and 2020 was $31,388 and $33,831, respectively. The decrease for the three months ended December 31, 2021 as compared to the same period in 2020 is primarily due to the decrease in other income primarily comprised of income from the sale of fixed assets. The decrease for the six months ended December 31, 2021 as compared to the same period in 2020 is primarily due to a decrease in interest income, resulting from updated investment strategies which yield lower interest while maintaining higher liquidity, offset, in part, by an increase in other income primarily comprised of income from scrap sales. Interest income is a function of the level of investments and investment strategies that generally tend to be conservative.

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The Company’s effective tax rate for the three and six months ended December 31, 2021 was approximately 34.7% and 20.2%, respectively, compared to 16.4% and 39.5% for the three and six months ended December 31, 2020. The effective tax rate in fiscal 2021 and 2020 is less than the statutory tax rate mainly due to the benefit derived from the ESOP dividends paid on allocated shares. The effective tax rate in the three month period ended December 31, 2021 was higher than the prior year as the direct result of a decreased benefit derived from ESOP dividends paid on allocated shares in the current period and from a discreet tax adjustment in the current quarter related to the expiration of non-qualified stock options. The effective tax rate in the six month period ended December 31, 2021 was lower than the prior year as the direct result of decreased benefit derived from ESOP dividends paid on allocated shares in the current period, offset in part, by higher income in the current period when compared to last year.

Net income for the three months ended December 31, 2021, was $21,201 or $0.01 per share, basic and diluted, compared to net loss of $(181,006) or $(0.08) per share, basic and diluted, for the three months ended December 31, 2020. Net income for the six months ended December 31, 2021 was $327,262 or $0.14 per share, basic and diluted, compared to $8,817 or $0.00 per share, basic and diluted, for the six months ended December 31, 2020. The increase in net income in the three and six months ended resulted from the increase in gross profit offset, in part, by an increase in selling, general and administrative expenses and an increase in the provision for income taxes, all discussed above.

Liquidity and Capital Resources

The Company's working capital is an appropriate indicator of the liquidity of its business, and during the past two fiscal years, the Company, when possible, has funded all of its operations with cash flows resulting from operating activities and when necessary from its existing cash and investments. The Company did not borrow any funds during the last two fiscal years. Management has available a $3,000,000 line of credit to help fund further growth or working capital needs, if necessary, but does not anticipate the need for any borrowed funds in the foreseeable future. Contingent liabilities on outstanding standby letters of credit agreements aggregated to zero at December 31, 2021 and 2020. The current line of credit expires February 28, 2022. It is our expectation the line will be renewed.

The Company's working capital as of December 31, 2021 and 2020 was approximately $28.1 million and $27.1 million, respectively. The Company may at times be required to repurchase shares at the ESOP participants’ request at the fair market value. During the three and six months ended December 31, 2021 and 2020, the Company did not repurchase any shares held by the ESOP. Under existing authorizations from the Company's Board of Directors, as of December 31, 2021, management is authorized to purchase an additional $783,460 of Company stock.

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

	Six Months Ended December 31,	
	2021	2020
Net cash provided by operating activities	$ 277,858	$ 2,929,039
Net cash (used in) provided by investing activities	(62,288)	1,910,548
Net cash used in financing activities	—	(1,201,316)

Net cash provided by operating activities fluctuates between periods primarily as a result of differences in sales and net income, provision for income taxes, the timing of the collection of accounts receivable, purchase of inventory, and payment of accounts payable. The decrease in cash provided by operating activities compared to the prior year primarily relates to the decrease in cash collected from trade receivables offset, in part, by an increase in net income and the decrease in inventory purchases. Net cash used in investing activities increased in the six months ended December 31, 2021 as compared to the same period in 2020 primarily due to the reinvestment of matured securities when compared to the same period last year. During the six months ended December 31 2021, there was no cash used for financing activities primarily resulting from the suspension of the regular dividend. In the prior year, cash used in financing activities resulted from the payment of regular dividends.

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

During the six months ended December 31, 2021 and 2020, the Company expended $97,288 and $29,173, respectively, for plant improvements and new equipment. The Company has budgeted approximately $200,000 for new equipment and plant improvements in fiscal year 2022. Management anticipates that the funds required will be available from current operations.

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

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The terms "believe," "anticipate," "intend," "goal," "expect," and similar expressions may identify forward-looking statements. These forward-looking statements represent the Company's current expectations or beliefs concerning future events. The matters covered by these statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the Company's dependence on timely development, introduction and customer acceptance of new products, the impact of competition and price erosion, supply and manufacturing constraints, potential new orders from customers, the impact of cyber or other security threats or other disruptions to our business, the impact of the COVID-19 pandemic on the United States economy and our operations and other risks and uncertainties. The foregoing list should not be construed as exhaustive, and the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

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

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PART II: Other Information and Signatures

Item 1. Legal Proceedings

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

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

(a) Securities Sold

(c) Securities Repurchased

As of December 31, 2021 the Company can repurchase up to $783,460 of its common stock pursuant to an ongoing plan authorized by the Board of Directors. During the quarter ended December 31, 2021 no shares were repurchased.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Effective January 1, 2022, the Company entered an Employment Agreement with Peggy A. Murphy, the Company's Corporate Secretary, Director of Human Resources and Facility Security Officer, which supersedes the Executive Employment Agreement dated as of March 1, 2013. The Agreement has a term of one year which automatically renews for additional one year periods unless either party gives notice of intention not to renew at least 60 days prior to the end of the current term. Ms. Murphy is entitled to a base salary of $140,400, subject to annual review (but with no decrease) by the Board.

In addition, Ms. Murphy is eligible to receive an annual cash bonus at the discretion of the Board.

If Ms. Murphy's employment is terminated without cause, she is entitled to severance pay equal to nine months of her base salary.

Item 6. Exhibits

10.14	Employment Agreement dated as of January 1, 2022 with Peggy A. Murphy
31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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S I G N A T U R E S

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ESPEY MFG. & ELECTRONICS CORP.

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

/s/Katrina Sparano
Katrina Sparano
Principal Financial Officer

Date: February 14, 2022

EXHIBIT 10.14

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of January 1, 2022 (the "Agreement"), is entered into by and between ESPEY MFG. & ELECTRONICS CORP., a New York corporation (the "Company"), and PEGGY A. MURPHY (the "Executive").

WHEREAS, the Executive has been serving the Company as its Corporate Secretary, Director of Human Resources and Facility Security Officer and the Board of Directors of the Company desires to continue the services and employment of the Executive on behalf of the Company in such capacities, and the Executive is willing to continue her employment in such capacities on the terms and conditions set forth herein (the "Employment").

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. *Employment Term.* Except for earlier termination as provided for in Section 5 hereof, the Company hereby agrees to employ the Executive, and the Executive hereby agrees to be employed by the Company, subject to the terms and provisions of this Agreement, for the period commencing January 1, 2022 (the **"Effective Date")** and ending on the first anniversary of such date (the **"Employment Term")**; provided that the Employment Agreement shall be extended for additional periods of one year each, unless either party gives prior written notice to the other at least sixty (60) days before the end of the then current term not electing to renew this Agreement.

2. *Extent of Employment.*

(a) *Duties.* During the Employment Term, the Executive shall serve as Corporate Secretary, Director of Human Resources and Facility Security Officer of the Company. In her capacity as Corporate Secretary, Director of Human Resources and Facility Security Officer, the Executive shall report to the Company's President and Chief Executive Officer (the **"CEO"**) and shall perform such senior executive duties, services, and responsibilities on behalf of the Company consistent with such position as determined by the Board and as may be assigned to the Executive from time to time by the CEO or the Company's Board of Directors (the "**Board**").

(b) *Exclusivity.* During the Employment Term, the Executive shall devote her full business time, attention, and skill to the performance of such duties, services, and responsibilities, and shall use her best efforts to promote the interests of the Company, and the Executive shall not engage in any other business activity without the approval of the Board. The Board may grant or withhold its approval in its exclusive discretion. The Executive shall be permitted to serve on industry, trade, civic or charitable boards or committees, and engage in charitable activities and community affairs to the extent such service and activities do not interfere with her Employment.

(c) *Place of Employment.* During the Employment Term, the Executive shall perform her services hereunder in, and shall be headquartered at, the principal offices of the Company in Saratoga Springs, New York, except for business travel related to business and activities of the Company.

3. *Compensation and Benefits.*

(a) *Base Salary.* During the Employment Term, in full consideration of the performance by the Executive of the Executive's obligations hereunder (including any services as an officer, employee, or member of any committee of any affiliate of the Company, or otherwise on behalf of the Company), the Executive shall receive from the Company a base salary (the **"Base Salary")** at an annual rate of $140,400.00 per year, payable in accordance with the normal payroll practices of the Company then in effect. The Base Salary shall be subject to annual review by the Board or the Compensation Committee of the Board. Pursuant to such annual review the Base Salary, as then currently in effect, may be adjusted (but not decreased), at the discretion of the Board.

(b) *Annual Bonus.* During the Employment Term, the Executive may also receive, in respect of each fiscal year during which the Employment Term is in effect, a bonus, at the discretion of the Board, to be based upon, among other factors, her performance, the Company's performance, and the recommendation of the CEO.

(c) *Equity Compensation.* The Executive shall be a participant in the Company's Employee Retirement Plan and Trust ("ESOP") in accordance with the terms and conditions of the ESOP. The Executive shall be entitled to the award of stock options or other stock-based rights by the Board from time to time in its discretion.

(d) *Benefits.* During the Employment Term, the Executive and her eligible dependents shall be entitled to participate in the employee health and benefit plans, policies, programs, and arrangements as may be amended from time to time, on the same terms as senior executives of the Company to the extent the Executive meets the eligibility requirements for any such plan, policy, program, or arrangement.

(e) *401(k) Retirement.* During the Employment Term, the Executive shall be entitled to participate in the Company 401(k) retirement plan on the same terms as all other Company employees.

(f) *Vacation.* During the Employment Term, four (4) weeks of paid vacation during each fiscal year to be used in accordance with the Company's policies in effect from time to time. Executive's right to carry forward vacation time from year to year and/or be paid for unused vacation shall be in accordance with the Company's policies in effect from time to time.

(g) *Expense Reimbursement.* In addition to and not in lieu of any other payments to be made to the Executive hereunder, the Company shall reimburse the Executive for reasonable and documented business expenses incurred by the Executive during the Employment Term in accordance with the Company's expense reimbursement policies then in effect, including but not limited to all travel, lodging and meal expenses in connection with Executive's travel in connection with providing her services hereunder.

4. *Withholding.* The Executive shall be solely responsible for taxes imposed on the Executive by reason of any compensation and benefits provided under this Agreement, during the Employment Term and thereafter. All such compensation and benefits shall be subject to applicable withholding as determined by the Company and the Executive shall cooperate with the Company, as necessary, to enable the Company to discharge its withholding obligations.

5. *Termination.*

(a) *Events of Termination.* The Executive's employment with the Company and the Employment Term shall terminate upon the expiration of the Employment Term or upon the earlier occurrence of any of the following events (the date of termination, the **"Termination Date"):**

(i) The termination of employment by reason of the Executive's death.

(ii) The termination of employment by the Company for Cause.

(iii) The termination of employment by the Company for Disability.

(iv) The termination of employment by the Company other than for Cause.

(v) The voluntary termination of employment by the Executive.

(b) *Certain Definitions.* For purposes of this Agreement:

(i) **"Disability"** means: *(A)* the Executive's disability as determined under the long-term disability plan of the Company as in effect from time to time; or *(B)* if no such plan is in effect, the inability of the Executive to perform her duties, services, and responsibilities hereunder by reason of a physical or mental infirmity, as reasonably determined by the Board, for a total of 120 days in any twelve-month period during the Employment Term.

(ii) **"Cause"** means: as determined by the Board, *(A)* the failure of the Executive to perform her duties or her negligent performance of such duties (other than any such failure due to the Executive's physical or mental illness) that has caused or is reasonably expected to result in injury to the Company or any of its affiliates; *(B)* the Executive having engaged in misconduct that has caused or is reasonably expected to result in injury to the Company or any of its affiliates; *(C)* a violation by the Executive of a Company policy that has caused or is reasonably expected to cause an injury to the Company; *(D)* the breach by the Executive of any of her obligations under this Agreement; *(E)* failure by the Executive to timely comply with a lawful and reasonable direction or instruction given to her by the CEO or the Board; or *(F)* Executive having been convicted of, or entering a plea of guilty or *nolo contendere* to a crime; *provided however,* notwithstanding the foregoing, that in the case of clauses *(A)-(E),* before the Company shall have the right to terminate the Executive for Cause, *(i)* the Company shall first be required to give the Executive 10 days' prior written notice (the **"Notice Period")** of such action, which written notice (the **"Breach Notice")** shall set forth in the nature of Executive's alleged breach, and, if such action is capable of being cured, the Executive shall not have cured such action to the satisfaction of the Company within the Notice Period; thereafter, the termination shall take effect with no further action required of the Company.

(c) *Cooperation.* In the event of termination of the Executive's employment for any reason (other than death), the Executive shall cooperate with the Company and be available to the Company for a reasonable period of time thereafter with respect to matters arising out of the Executive's employment hereunder or related to the Company's business, whether such matters are business-related, legal, or otherwise.

(d) *Resignation from All Positions.* Upon termination of the Executive's employment for any reason, the Executive shall be deemed to have resigned from all other positions with the Company including, without limitation, as an officer and director, as applicable.

6. *Termination Payments.* The Executive shall be entitled to certain payments upon termination of her employment as follows:

(a) *Termination for Cause; Voluntary Termination by Executive.* In the event that the Executive's employment is terminated for Cause or the Executive voluntarily terminates her employment, the Executive shall be entitled to receive only: *(i)* any accrued and unpaid Base Salary as of the Termination Date; and *(ii)* all accrued and unpaid benefits under any benefit plans, policies, programs, or arrangements in which the Executive participated as of the Termination Date in accordance with the applicable terms and conditions of such plans, policies, programs, or arrangements (all of the foregoing, collectively, the **"Accrued Compensation").** In the event of termination for cause or voluntary termination by Executive there shall be no bonus payment, even if one has already been awarded, but not yet paid.

(b) *Termination for Death or Disability.* In the event that the Executive's employment is terminated pursuant to Section 5(a)(i) or 5(a)(iii) hereof, the Executive shall be entitled to receive the Accrued Compensation.

(c) *Termination without Cause.* In the event that the Executive's employment is terminated pursuant to Section 5(a)(iv) hereof, the Executive shall be entitled to receive: *(i)* the Accrued Compensation; *(ii)* any bonus, awarded but not yet paid; and *(iii)* severance pay ("Severance Pay") equal to nine months of Base Salary at the rate in effect on the Termination Date. The severance pay contemplated by clause *(iii)* of the immediately preceding sentence shall be paid in equal installments in accordance with the Company's regular payroll practices, commencing on the first payroll period following the thirtieth day after the Termination Date. Severance Pay shall be paid only under this Section 6(c).

(d) *Release.* Notwithstanding any other provision of this Agreement, no Severance Pay or other benefits shall become payable under Section 6(c) of this Agreement unless and until (i) the Executive executes a general release of claims substantially similar to the form of release annexed hereto as Exhibit A, and such release has become irrevocable within 30 days following the Termination Date, *provided* that the Executive shall not be required to release any indemnification rights that she may have under the Company's Certificate of Incorporation or By-Laws and (ii) the Executive fully complies with the Executive Covenants described in Section 7.

(e) *Full Satisfaction.* The payments to be provided to the Executive pursuant to this Section 6 upon termination of the Executive's employment shall constitute the exclusive payments in the nature of severance or termination pay or salary continuation that shall be due to the Executive upon a termination of employment, and shall be in lieu of any other such payments under any plan, program, policy, or other arrangement that has heretofore been or shall hereafter be established by the Company.

7. *Executive Covenants.*

(a) *Confidentiality.* The Executive agrees and understands that in the Executive's position with the Company, the Executive will be exposed to and will receive information relating to the confidential affairs of the Company, including but not limited to, information regarding the Company's ownership, technical information, intellectual property, business and marketing plans, strategies, customer information, other information concerning the products, promotions, development, financing, expansion plans, business policies and practices of the Company, and other forms of information considered by the Company reasonably and in good faith to be confidential and in the nature of trade secrets **("Confidential Information").** Confidential Information does not include information that is or becomes widely available in any industry in which the Company does business other than as a result of any act or omission by the Executive in violation of this Agreement or law. The Executive agrees that during the Employment Term and thereafter, the Executive shall not, other than on behalf of the Company, disclose such Confidential Information, either directly or indirectly, to any third person or entity without the prior written consent of the Company; *provided* that disclosure may be made to the extent required by law, regulation, or order of a regulatory body, in each case so long as the Executive gives the Company as much advance notice of the disclosure as possible to enable the Company to seek a protective order, confidential treatment, or other appropriate relief. This confidentiality covenant has no temporal, geographical, or territorial restriction. Upon termination of the Employment Term, the Executive shall promptly supply to the Company: *(i)* all property of the Company; and *(ii)* all notes, memoranda, writings, lists, files, reports, customer lists, correspondence, tapes, disks, cards, surveys, maps, logs, machines, technical data, or any other tangible product or document containing Confidential Information produced by, received by, or otherwise submitted to the Executive during or prior to the Employment Term.

Executive acknowledges that pursuant to the Defend Trade Secrets Act, an individual may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Also, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to Court order.

(b) *Noncompetition.* By and in consideration of the Company entering into this Agreement and the payments to be made and benefits to be provided by the Company hereunder, and further in consideration of the Executive's exposure to Confidential Information, the Executive shall not, during the Noncompetition Term (as defined below), directly or indirectly, own, manage, operate, join, control, be employed by, or participate in the ownership, management, operation or control of, or be connected in any manner with, including but not limited to holding any position as a shareholder, director, officer, consultant, independent contractor, employee, partner, or investor in, any Restricted Enterprise (as defined below); *provided* that in no event shall ownership of less than 1% of the outstanding equity securities of any issuer whose securities are registered under the Securities and Exchange Act of 1934, as amended, standing alone, be prohibited by this Section 7(b). Following termination of the Employment Term, upon request of the Company during the Noncompetition Term, the Executive shall notify the Company of the Executive's then-current employment status.

(c) *Nonsolicitation.* During the Noncompetition Term, the Executive shall not, and shall not cause any other person to: *(i)* interfere with or harm, or attempt to interfere with or harm, the relationship of the Company with any Restricted Person (as defined below); or *(ii)* endeavor to entice any Restricted Person away from the Company.

(d) *Nondisparagement.* During the Employment Term and thereafter, and accept as may be required by law, the Executive shall not make or publish any disparaging statements (whether written or oral) regarding the Company, its officers, directors, employees or business, except as shall be necessary for the Executive to enforce any agreements between the parties or to comply with any requirements or obligations under law. In addition, during the Employment Term and thereafter, the Company will request that its directors and officers not make or publish any disparaging statements (whether written or oral) regarding the Executive, except as may be necessary to comply with any requirements or obligations under law.

(e) *Proprietary Rights.* The Executive assigns all of the Executive's interest in any and all inventions, discoveries, improvements, and patentable or copyrightable works initiated, conceived, or made by the Executive, either alone or in conjunction with others, during the Employment Term and related to the business or activities of the Company to the Company or its nominee. Whenever requested to do so by the Company, the Executive shall execute any and all applications, assignments, or other instruments that the Company in good faith deems necessary to apply for and obtain trademarks, patents, or copyrights of the United States or any foreign country or otherwise protect the interests of the Company therein. These obligations shall continue beyond the conclusion of the Employment Term and the Noncompetition Term with respect to inventions, discoveries, improvements, or copyrightable works initiated, conceived, or made by the Executive during the Employment Term.

(f) *Remedies.* The Executive agrees that any breach of the terms of this Section 7 would result in irreparable harm to the Company for which the Company would have no adequate remedy at law; the Executive therefore also agrees that in the event of such breach or any threat of breach, the Company shall be entitled to seek equitable relief to prevent such breach, threatened breach, or continued breach by the Executive and any and all persons or entities acting for or with the Executive, in addition to any other remedies to which the Company may be entitled at law or in equity including the recovery of reasonable attorneys' fees. The terms of this Section 7 shall not prevent the Company from pursuing any other available remedies for any breach or threatened breach hereof, including but not limited to, the recovery of damages from the Executive including reasonable attorneys' fees. The Executive and the Company further agree that the provisions of the covenants contained in this Section 7 are reasonable and necessary to protect the business of the Company because of the Executive's access to Confidential Information and her material participation in the operation of such business. Should a court, arbitrator, or other similar authority determine, however, that any provisions of the covenants contained in this Section 7 are not reasonable or valid, either in period of time, geographical area, or otherwise, the parties hereto agree that such covenants are to be interpreted and enforced to the maximum extent to which such court or arbitrator deems reasonable or valid. The existence of any claim or cause of action by the Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants contained in this Section 7.

(g) *Certain Definitions.* For purposes of this Agreement:

(i) The ***"Noncompetition Term"*** means the period beginning on the date of this Agreement and ending nine (9) months following the Termination Date.

(ii) ***"Restricted Enterprise"*** means any person, corporation, partnership, or other entity that is engaged in the Territory with a business or product lines of the same or similar nature as those offered by the Company; For purposes of this definition, "product lines of the same or similar nature as those offered by the Company" shall also include, at any date, potential new product lines the development of which the Company has, during the 12 months preceding such date, devoted more than *de minimis* resources.

(iii) ***"Restricted Person"*** means any person who at any time during the two-year period prior to the Termination Date, was an employee, consultant, independent contractor or customer of the Company, or otherwise had a material business relationship with the Company.

(iv) The ***"Territory"*** means, the United States of America and other areas of the world where the Company conducts business.

8. *Representations by the Executive.* The Executive represents to the Company that (i) her execution and performance of this Agreement does not violate any agreement or obligation (whether or not written) that the Executive has with or to any person or entity including, but not limited to, any prior employer, (ii) she is not subject to the terms of any noncompetition, non-solicitation or confidentiality agreement with any prior employer, and (iii) she has not been convicted of, or entered a plea of guilty or *nolo contendere* to a crime that constitutes a felony in any jurisdiction (or comparable crime in any jurisdiction which uses a different nomenclature). In the event of a determination by the Board that the Executive is in material breach of either of these representations, the Company may terminate the Executive's employment, and any such termination shall be considered a termination for Cause under Section 5(a)(ii).

9. *No Waiver of Rights.* The failure to enforce at any time the provisions of this Agreement or to require at any time performance by any other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement or any part hereof, or the right of any party to enforce each and every provision in accordance with its terms.

10. *Notices.* Every notice relating to this Agreement shall be in writing and shall be given by personal delivery, by a reputable same-day or overnight courier service (charges prepaid), by registered or certified mail, postage prepaid, return receipt requested, or by facsimile to the recipient with a confirmation copy to follow the next day to be delivered by personal delivery or by a reputable same-day or overnight courier service to the appropriate party's address or fax number below (or such other address and fax number as a party may designate by notice to the other party):

If to the Executive: To the Executive at the address most recently contained in the Company's records.

If to the Company: Chief Executive Officer
Espey Mfg. & Electronics Corp.
233 Ballston Avenue
Saratoga Springs, New York 12866

11. *Binding Effect/Assignment.* This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, personal representatives, estates, successors (including, without limitation, by way of merger), and permitted assigns. Notwithstanding the provisions of the immediately preceding sentence, the Executive shall not assign all or any portion of this Agreement without the prior written consent of the Company.

12. *Entire Agreement.* This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, written or oral, between them as to such subject matter including, without limitation, that certain Executive Employment Agreement dated as of March 1, 2013.

13. *Severability.* If any provision of this Agreement, or any application thereof to any circumstances, is invalid, in whole or in part, such provision or application shall to that extent be severable and shall not affect other provisions or applications of this Agreement.

14. *Governing Law; and Consent to Jurisdiction.* This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, without reference to the principles of conflict of laws.

15. *Modifications and Waivers.* No provision of this Agreement may be modified, altered, or amended except by an instrument in writing executed by the parties hereto. No waiver by any party hereto of any breach by any other party hereto of any provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions at the time or at any prior or subsequent time.

16. *Headings.* The headings contained herein are solely for the purposes of reference, are not part of this Agreement, and shall not in any way affect the meaning or interpretation of this Agreement.

17. Applicability of Section 409A of the Code.

(a) *Generally.* This Agreement is intended to comply with Sections 409A of the Internal Revenue Code of 1986, as amended and the Treasury Regulations and IRS guidance thereunder **("Section 409A").** Notwithstanding anything to the contrary, this Agreement shall, to the maximum extent possible, be administered, interpreted, and construed in a manner consistent with Section 409A. If any provision of this Agreement provides for payment within a time period, the determination of when such payment shall be made within such time period shall be solely in the discretion of the Company.

(b) *Reimbursements.* To the extent that any reimbursement, fringe or other in-kind benefit, or other, similar plan or arrangement in which the Executive participates during the Employment Term or thereafter provides for a "deferral of compensation" within the meaning of Section 409A: *(i)* the amount of expenses eligible for reimbursement provided to the Executive during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to the Executive in any other calendar year; *(ii)* the reimbursements for expenses for which the Executive is entitled to be reimbursed shall be made as soon as practicable following the date on which such expenses were incurred and documented to the Company, but in no event later than the last day of the calendar year following the calendar year in which the applicable expense is incurred; *(iii)* the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit; and *(iv)* the reimbursements shall be made pursuant to objectively determinable and nondiscretionary Company policies and procedures regarding such reimbursement of expenses.

(c) *Termination Payments.* If and to the extent required to comply with Section 409A, no payment or benefit required to be paid under this Agreement on account of termination of the Executive's employment shall be made unless and until the Executive incurs a "separation from service" within the meaning of Section 409A. In addition, with respect to any payments or benefits subject to Section 409A, reference to Executive's "termination of employment" (and corollary terms) from the Company shall be construed to refer to the Executive's "separation from service" (as determined under Treas. Reg. Section 1.409A-1(h), as uniformly applied by the Company) from the Company and all entities aggregated with the Company under Section 409A. Notwithstanding anything to the contrary contained herein, if the Executive is a "specified employee" within the meaning of Section 409A, and if any or all of the payments or the continued provision of any benefits under Section 6 or any other provision of this Agreement are subject to Section 409A and payable upon a separation from service, then such payments or benefits that the Executive would otherwise be entitled to receive during the first six months after termination of employment shall be accumulated and paid or provided on the first business day after the six-month anniversary of termination of employment (or within 30 days following the Executive's death, if earlier) in a single lump sum and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

18. *Counterparts.* This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and the Executive have caused this Agreement to be duly executed effective as of the day and year first above written.

ESPEY MFG. & ELECTRONICS CORP.

By: ______________________________

Name:	David A. O'Neil
Title:	President and Chief Executive Officer

EXECUTIVE

____

Peggy A. Murphy

EXHIBIT A

SEPARATION AGREEMENT AND GENERAL RELEASE

This "Separation Agreement and General Release" (hereinafter "Release"), signed by PEGGY A. MURPHY (hereinafter "you" or "your") and in favor of Espey Mfg. & Electronics Corp. (hereinafter "the Company") is for the purpose of amicably and fully resolving any and all claims, disputes and issues arising out of your employment at the Company and the termination of that employment.

As your employment with the Company terminated on ____________ ("your Termination Date"), and

As you have agreed to provide this Release to the Company in return for the consideration set forth herein;

Therefore, in consideration of the mutual covenants and promises hereinafter provided and of the actions to be taken pursuant thereto, you agree as follows:

1. (a) You hereby accept the sums set forth in Section 1(b) below. Except as provided in said Section 1(b) and in Section 5 below, you will not be entitled to any other compensation or benefits from the Company.

(b) (i) The Company will make severance payments to you in the gross aggregate amount of $____________, (representing nine months of your base salary) less all withholdings and deductions required by law, to be paid according to your regular payroll cycle until fully paid.

(ii) The Company will commence making severance payments to you beginning on the first regular payroll after the thirtieth day following your Termination Date.

(iii) To the extent any taxes may be due on the payments provided in this Agreement, beyond any withheld by the Company, you shall pay them yourself and shall indemnify and hold the Company harmless from any tax claims or penalties resulting from such payments. You further agree to provide the Company any and all information pertaining to you upon request as reasonably necessary for the Company and other entities released herein to comply with applicable tax laws. You hereby acknowledge that the Company has not made any representations regarding the tax consequences of the payments provided in this Release and that the Company has not provided you with any tax advice regarding the payments provided in this Release, including without limitation advice on the treatment of the payments under Section 409A of the Internal Revenue Code.

2. In exchange for the sums and benefits set forth above, you agree to release the Company, its subsidiaries, its affiliated and related entities and their current and former shareholders, officers, directors, agents, employees, successors and assigns (hereinafter collectively the "Released Parties") from all claims, demands, actions, and liabilities, whether known or unknown (except as expressly set forth in Section 4 below), you may have against them or any one of them in any way related to your employment at the Company and/or the termination of that employment. By way of example, the types of claims that are covered under this Release include, but are not limited to:

(a) all "wrongful discharge" claims, "constructive discharge" claims, claims relating to any contracts of employment, expressed or implied, any covenants of good faith and fair dealing, expressed or implied, any personal wrongs or injuries and any claim for attorney's fees;

(b) any claims that could be brought pursuant to Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000-1 *et seq.,* the Age Discrimination in Employment Act, 29 U.S.C. § 621 *et seq.,* the Americans with Disabilities Act, 42 U.S.C. § 12101 *et seq.,* the Employee Retirement Income Security Act, 29 U.S.C. § 1131 *et seq.,* the Family and Medical Leave Act, 29 U.S.C. § 2601 *et seq.* the Lilly Ledbetter Fair Pay Act of 2009, Pub. L. No. 111L-2; the New York Human Rights Law, McKinney's Executive Law §290, *et seq.,* (all as may have been amended);

(c) any claims that could be brought under any other federal, state, county or municipal statute or ordinance dealing with (i) discrimination in employment on the basis of sex, race, national origin, religion, disability, age, marital status, affectional or sexual orientation or other reason; (ii) employee whistleblower protection; and (iii) employee family leave rights; and

(d) all other claims including those of which you are not aware and those not specifically mentioned in this Release.

3. (a) You agree that you will never sue or otherwise institute a claim of any kind against the Released Parties or any one of them for anything that has happened up to now, whether such claim is presently known or unknown by you, in any way related to your employment at the Company and/or the termination of that employment.

(b) If you breach the terms of this Release by suing the Company or the Company's personnel, you agree that you will pay all costs and expenses incurred by the Company and the Company's personnel in defending against the suit, including reasonable attorneys' fees.

(c) Additionally, if you breach the terms of this Release, you agree that the Company shall have the right to immediately stop paying the Severance Pay and/or if already paid, to obtain, by way of counterclaim or other lawful means, repayment of the full amount paid to you as consideration for this Release.

4. Notwithstanding anything in this Release to the contrary, (a) this Release does not include any claims you may have with respect to any medical, prescription, dental, flexible spending account, life insurance, retirement and savings or other benefits provided by plans maintained by the Company to which you may be entitled, any rights that you may have under this Release, Company's Employee Stock Ownership Plan or outstanding stock options granted to you by the Company, any rights to indemnification you may have under the Company's Certificate of Incorporation or By-Laws, or to any payments due you under this Release, and (b) nothing in this Release is intended to prohibit or restrict you from: making any disclosure of information required by law or (i) filing a charge with, (ii) providing information to, or (iii) testifying or otherwise assisting or participating in any investigation or proceeding brought by, any regulatory or law enforcement agency or legislative body, including, but not limited to, the Equal Employment Opportunity Commission and the National Labor Relations Board; nevertheless, you acknowledge and agree that by virtue of this Release you have waived any relief available to you (including without limitation, monetary damages, equitable relief and reinstatement) under any of the claims and/or causes of action waived in this Release, and you therefore agree you will not accept any award or settlement from any source or proceeding (including but not limited to any proceeding brought by any other person or by any government agency) with respect to any claim or right waived in this Release.

5. You agree that you have executed this Release on your own behalf and also on behalf of any heirs, agents, representatives, successors and assigns that you may have now or in the future.

6. You acknowledge and agree that the benefits provided herein exceed any amount to which you would otherwise be presently entitled under the Company's policies, procedures and benefit programs and/or under any applicable law without providing this Release, and constitute valuable consideration for this Release.

7. You acknowledge that, by requesting this Release, the Company does not admit, expressly or implicitly, that it has engaged in any wrongdoing whatsoever.

8. (a) You hereby acknowledge and agree that Section 7 of your Employment Agreement dated ____________, 2022, which contains various covenants as to Confidential Information, non-competition and non-solicitation shall remain in full force and effect according to its terms.

(b) You further acknowledge and represent that you have returned to the Company all Confidential Information (including copies), all other documents, and all tangible property of the Company, including, but not limited to, keys, credit cards, cell phones, computers and other electronic equipment.

9. You and the Company agree that neither you nor the Company will make any statements, orally or in writing (including electronic communications), that disparage the business reputation or good will of the Released Parties or any one of them or of you.

10. You agree to keep both the existence and the terms of this Release completely confidential, except that you may discuss this Release with your attorney, accountant or other tax professional, and your spouse, and (b) to the extent necessary to enforce your rights hereunder.

11. You acknowledge that you have been advised of the following:

(a) you have the right to and should consult with an attorney prior to signing this Release;

(b) you have **21** days to decide whether to sign this Release and deliver it to, ________________ at the Company's offices, 233 Ballston Avenue, Saratoga Springs, New York 12866.

(c) if you sign this Release, you have up to **7** days to revoke it and the Release will not become effective until this 7-day period has expired;

12. This Release is not effective or enforceable for 7 days after you sign it and you may revoke it during that time. To revoke, a written notice of revocation must be delivered to, ________________ at the Company's offices at the above address, within 7 days after you sign this Release. The revocation must be:

(a) sent by certified mail within the 7-day period; and

(b) properly addressed to ________________________ at the above address.

If ____________ does not receive a written verification in accordance with the foregoing terms, you will not be able to rescind this Release.

13. You agree that this Release contains the entire agreement of the parties and that this Release cannot be amended, modified, or supplemented in any respect except by the written agreement of both parties.

14. You agree that if any term or provision of this Release or the application thereof to any alleged claim or party or circumstances, shall to any extent be determined to be invalid, void, or unenforceable, the remaining provisions and any application thereof shall nevertheless continue in full force and effect without being impaired or invalidated in any way. The parties further agree to replace any such void or unenforceable provision of this Release with a valid and enforceable provision that will achieve, to the extent possible, the economic, business or other purposes of the void or unenforceable provision.

15. You agree that this Release shall be governed by the laws of the State of New York without giving effect to any conflicts of law principles.

16. This Agreement will not become effective until the expiration of the 7-day revocation period set forth in paragraph 12 above.

17. **You hereby acknowledge that you have read this Release in its entirety, understand fully the meaning and significance of all its terms, and hereby voluntarily and knowingly agree to accept all of its terms. You further acknowledge that you have not relied on any representations, promises, or agreements of any kind made to you in connection with your decision to sign this Release except for the agreements set forth in the Release.**

____

Date:

EXHIBIT 31.1
Certification of the Chief Executive Officer
Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934,
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David O’Neil, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Espey Mfg. & Electronics Corp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 14, 2022

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

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

I, Katrina Sparano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Espey Mfg. & Electronics Corp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2022

/s/ Katrina Sparano
Katrina Sparano
Principal Financial Officer

EXHIBIT 32.1

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

In connection with this quarterly report of Espey Mfg. & Electronics Corp. (the "Company") on Form 10-Q for the period ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "report"), I, David O'Neil, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: February 14, 2022

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

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

In connection with this quarterly report of Espey Mfg. & Electronics Corp. (the "Company") on Form 10-Q for the period ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “report”), I, Katrina Sparano, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: February 14, 2022

/s/Katrina Sparano
Katrina Sparano
Principal Financial Officer