UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended September 30, 2006

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

For the transition period from __________ to __________

Commission File Number I-4383

ESPEY MFG. & ELECTRONICS CORP.

(Exact name of registrant as specified in charter)

NEW YORK	14-1387171
(State of Incorporation)	(I.R.S. Employer's Identification No.)

233 Ballston Avenue, Saratoga Springs, New York 12866

(Address of principal executive offices)

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

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

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

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

Class	Outstanding at November 8, 2006
Common stock, $.33-1/3 par value	2,314,596 shares

Transitional Small Business Disclosure Format YES [ ] NO [ ]

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

PART I: FINANCIAL INFORMATION

ESPEY MFG. & ELECTRONICS CORP.
Balance Sheet (Unaudited)
September 30, 2006

ASSETS:

Cash and cash equivalents	$ 8,064,351
Short term investments	4,224,000
Trade accounts receivable, net	3,256,196
Other receivables	5,227
Inventories:	
Raw materials and supplies	1,831,508
Work-in-process	2,201,007
Costs relating to contracts in process, net of advance	

payments of $477,142 at September 30, 2006	8,507,544
Total inventories	12,540,059
Deferred income taxes	168,038
Prepaid expenses and other current assets	740,008
Total current assets	28,997,879
Property, plant and equipment, net	2,867,764
Total assets	$ 31,865,643
LIABILITIES AND STOCKHOLDERS' EQUITY:	
Accounts payable	$ 1,287,651
Accrued expenses:	
Salaries, wages and commissions	168,723
Vacation	515,634
ESOP payable	71,608
Other	46,849
Payroll and other taxes withheld and accrued	45,048
Income taxes payable	134,059
Total current liabilities	2,269,572
Deferred income taxes	211,518
Total liabilities	2,481,090
Common stock, par value $.33-1/3 per share Authorized 10,000,000 shares; issued 3,029,874 shares on September 30, 2006. Outstanding 2,312,596 (includes 267,917 Unearned ESOP Shares) on September 30, 2006	1,009,958
Capital in excess of par value	12,590,207
Retained earnings	25,930,546
Less: Unearned ESOP Shares	(3,961,079)
Cost of 717,278 Treasury shares on September 30, 2006	(6,185,079)
Total stockholders' equity	29,384,553
Total liabilities and stockholders' equity	$ 31,865,643

See accompanying notes to the financial statements.

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ESPEY MFG. & ELECTRONICS CORP.
Statements of Income (Unaudited)
Three Months Ended September 30, 2006 and 2005

	Three Months	
	2006	2005

Net sales	$ 6,071,906	$ 4,560,574
Cost of sales	4,674,598	3,680,284
Gross profit	1,397,308	880,290
Selling, general and administrative expenses	726,980	669,719
Operating income	670,328	210,571
Other income (expense)		
Interest and dividend income	145,511	98,934
Other	3,625	(2,823)
	149,136	96,111
Income before income taxes	819,464	306,682
Provision for income taxes	276,414	88,938
Net income	$ 543,050	$ 217,744
Net income per share:		
Basic	$ 0.27	$ .11
Diluted	$ 0.26	$ .11
Weighted average number of shares outstanding:		
Basic	2,034,014	2,017,164
Diluted	2,060,338	2,054,942
Dividends per share:	$ 0.1300	$ .0750

As described in note 7, a stock split in the form of a stock dividend of one share of common stock for each share of common stock issued, was paid on December 30, 2005 (all per share and share amounts have been adjusted to reflect this dividend).

See accompanying notes to the financial statements.

ESPEY MFG. & ELECTRONICS CORP.
Statements of Cash Flows (Unaudited)
Three Months Ended September 30, 2006 and 2005

	September 30, 2006	2005
Cash Flows From Operating Activities:		
Net income	$ 543,050	$ 217,74
Adjustments to reconcile net income to net cash provided by operating activities:		
Tax effect on stock options	24,569	-
Stock option compensation	39,189	-
Depreciation	121,128	128,87
ESOP compensation expense	107,250	106,40
Loss on disposal of assets	3,493	8,07
Deferred income tax	(18,204)	(17,50
Changes in assets and liabilities:		
Decrease in trade receivable, net	957,032	73,77
Decrease (Increase) in other receivables	1,657	(6,28
Increase in inventories	(135,680)	(499,27
Increase in prepaid expenses and other current assets	(185,881)	(300,95
Increase in accounts payable	672,065	462,69
Increase in accrued salaries, wages and commissions	40,716	29,80
Decrease in other accrued expenses	(4,551)	(5,68
Decrease in vacation accrual	(29,789)	(55,52
Increase in payroll and other taxes withheld and accrued	4,451	8,28
Decrease in income taxes payable	(520,159)	(133,90
Decrease in ESOP payable	(35,642)	(22,50
Net cash provided by (used in) operating activities	1,584,694	(5,96
Cash Flows From Investing Activities:		
Unearned ESOP Shares	--	(4,335,00
Additions to property, plant and equipment	(109,933)	(50,42
Purchase of short term investments	(864,000)	(1,920,00
Maturity of short term investments	576,000	1,632,00
Net cash used in investing activities	(397,933)	(4,673,42
Cash Flows From Financing Activities:		
Sale of treasury stock	--	4,396,42
Dividends on common stock	(264,449)	(149,90
Purchase of treasury stock	(31,126)	(417,68
Proceeds from exercise of stock options	100,550	61,17
Net cash (used in) provided by financing activities	(195,025)	3,890,00
Increase (Decrease) in cash and cash equivalents	991,736	(789,38
Cash and cash equivalents, beginning of period	7,072,615	9,803,50
Cash and cash equivalents, end of period	8,064,351	9,014,12
Supplemental disclosures of cash flow information:		
Income Taxes Paid	$ 790,500	$ 240,34

Non-cash investing and financing activities:

During the period ended December 31, 2005, the Company effected a stock split in the form of a stock dividend of 1,514,937 common shares, representing one share for each share outstanding and each share held as a treasury share. This resulted in a transfer from retained earnings to common stock of $504,979.

See accompanying notes to the financial statements.

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

Note 1. Basis of Presentation

In the opinion of management the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the results for such periods. The results for any interim period are not necessarily indicative of the results to be expected for the full fiscal year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the Company's most recent audited financial statements included in its report on Form 10-KSB for the year ended June 30, 2006.

Note 2. Net income per Share

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

Note 3. Stock Based Compensation

Prior to July 1, 2006, the Company accounted for its stock-based compensation plan under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25") and related interpretations, as permitted by the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. Accordingly, no stock-based compensation expense was recognized in the Statement of Income for the three months ended September 30, 2005, as all options granted under the Company's stock-based employee compensation plans had an exercise price equal to the market value of the underlying common stock on the date of grant. As permitted by SFAS No. 123, stock-based compensation expense was included as a pro forma disclosure in the Notes to the Company's financial statements for the three months ended September 30, 2005.

Effective July 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, using the modified prospective transition method. Under that transition method, compensation cost recognized during the three months ended September 30, 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of July 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123. Results for prior periods have not been restated, as allowed for under the modified prospective transition method.

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

As of September 30, 2006, there was approximately $190,439 of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over a period of 1.75 years.

The Company has one employee stock option plan, the 2000 Stock Option Plan. The Board of Directors may grant options to acquire shares of common stock to employees of the Company at the fair market value of the common stock on the date of grant. Generally, options granted have a two year vesting period based on two years of

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continuous service and have a ten year contractual life. Option grants provide for accelerated vesting if there is a change in control. Shares issued to satisfy option grants are issued from Treasury stock. Options authorized for issuance under the 2000 Stock Option Plan totaled 275,300. As of September 30, 2006, of the options authorized for issuance, 129,200 were granted and are outstanding, 56,200 of which are vested and exercisable. Options available for future grants at September 30, 2006 total 103,800.

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

The table below outlines the weighted average assumptions that the Company used to calculate stock-based employee compensation for the three months ended September 30, 2006:

	Three Months Ended September 30, 2006
Dividend yield	2.36%
Expected stock price volatility	21.72%
Risk-free interest rate	4.35%
Expected option life (in years)	5.4
Weighted average fair value per share of options granted during the period	--

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

The following table illustrates the effect on net income per share for the three months ended September 30, 2005 as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Three Months Ended September 30, 2005
Net income, as reported	$ 217,744
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income taxes	(4,858)
Pro forma net income	$ 212,886
Income per share:	
Basic - as reported	$ .11
Basic - pro forma	$ .11
Diluted - as reported	$ .11
Diluted - pro forma	$ .10

The table below outlines the weighted average assumptions as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for the three months ended September 30, 2005:

	Three Months Ended September 30, 2005
Dividend yield	3.0%
Expected stock price volatility	20.0%
Risk-free interest rate	4.0%
Expected option life (in years)	5.0
Weighted average fair value per share of options granted during the period	--

The following table summarizes stock option activity during the three months ended September 30, 2006:

	Employee Stock Options Plan		
	Number of Shares Subject To Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Balance at July 1, 2006	146,200	$14.02	8
Granted	--	--	--
Exercised	(9,800)	$10.26	--
Forfeited or expired	(7,200)	$13.39	--
Balance September 30, 2006	129,200	$14.33	8
Exercisable at September 30, 2006	56,200	$10.10	6.5

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The intrinsic value of stock options exercised was $35,272, during the three months ended September 30, 2006. The intrinsic value of stock options outstanding and exercisable as of September 30, 2006 was $387,525.

Note 4. Commitments and Contingencies

The Company has entered into standby letters of credit agreements with financial institutions primarily relating to the guarantee of future performance on certain contracts. Contingent liabilities on outstanding standby letters of credit agreements aggregated $246,625 at September 30, 2006. The Company does not expect to fund any of the amounts under the standby letters of credit. As a government contractor, the Company is continually subject to audit by various agencies of the U.S. Government to determine compliance with various procurement laws and regulations. As a result of such audits and as part of normal business operations of the Company, various claims and charges can be asserted against the Company. It is not possible to predict the outcome of such actions. Currently the Company has no claims or assertions against it.

Note 5. Recently Issued Accounting Standards

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

Note 6. Employee Stock Ownership Plan

The Company sponsors a leveraged employee stock ownership plan (the "ESOP") that covers all nonunion employees who work 1,000 or more hours per year and are employed on June 30. Prior to July 15, 2005, the ESOP owned 230,120 shares, all of which were allocated to employees. On July 15, 2005, pursuant to a Stock Purchase Agreement dated as of such date, the Company, by selling 150,000 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 $28.90 per share, for an aggregate purchase price of $4,335,000. 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 and the unpaid balance will bear interest at a fixed rate of 6.25% per annum, the "prime rate" as quoted in The Wall Street Journal on the date of closing. The above ESOP information has not been adjusted for the stock split described in note 7.

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The Board of Directors of the Company had approved a purchase price per share equal to a 5% discount on the average trading price of the Company's common stock on the American Stock Exchange on the date before closing, but in no event greater than the fair market value as determined by an independent valuation firm retained by the ESOP. The average trading price of the Company's common stock on the American Stock Exchange on July 14, 2005 was $30.72.

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 380,120 shares of the Company's 1,158,294 outstanding shares of common stock as of July 15, 2005.

The Company makes annual contributions to the ESOP equal to the ESOP's debt service less dividends on unallocated shares received by the ESOP. All dividends on unallocated shares received by the ESOP are used to pay debt service. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings. As the debt is repaid, shares are released and allocated to active employees, based on the proportion of debt service paid in the year. The Company accounts for its ESOP in accordance with Statement of Position 93-6. Accordingly, the shares purchased by the ESOP are reported as Unearned ESOP Shares in the statement of financial position. As shares are released or committed-to-be-released, the Company reports compensation expense equal to the current average market price of the shares, and the shares become outstanding for earnings-per-share (EPS) computations. ESOP compensation expense was $107,250 for the quarter ended September 30, 2006. The ESOP shares as of September 30 (after the stock split described in note 7) were as follows:

Allocated Shares	444,202
Committed-to-be-released shares	6,250
Unreleased shares	267,917
Total shares held by the ESOP	718,369
Fair value of unreleased shares at September 30, 2006	$4,554,589

Note 7. Stock Split

On December 30, 2005, the Company effected a one-for-one stock split in the form of a dividend of one share of common stock for each share of common stock outstanding. The Company also allocated to treasury an additional share for each share being held as a treasury share. All references to the number of common shares, shares related to the Company's stock option plan, as well as per share data in the accompanying financial statements, have been adjusted to reflect the stock split on a retroactive basis with the exception of the details describing the Company's ESOP transaction which became executed on July 15, 2005 described in note 6 and "Other Matters". As a result of the stock split, common stock was increased and retained earnings was decreased by $504,979.

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

Overview

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

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

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

Management is optimistic about the future of the Company. In the first three months of fiscal 2007, the Company received approximately $3.9 million in new orders. These orders include both follow-on production quantities for mature products, and engineering development orders which will enable the Company to utilize its engineering expertise in developing new customer specific products. Some of these products, once developed, will be produced in the Company's manufacturing facility and are expected to provide large production order quantities over several years. These orders are in line with the Company's strategy of being involved in long-term high quantity military and industrial products.

The sales backlog of approximately $35.6 million at September 30, 2006 gives the Company a solid base of future sales and, therefore, management expects an increase in sales for fiscal 2007 as compared to fiscal 2006. In addition to the backlog, the Company currently has outstanding quotations and expected business representing approximately $31 million in the aggregate for both repeat and new programs. Many potential orders are currently being discussed and negotiated with our customers.

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

The total backlog for the Company of $35.6 million at September 30, 2006, down $9.7 million over September 30, 2005, represents the estimated remaining sales value of work to be performed under firm contracts. The funded portion of this backlog at September 30, 2006 is approximately $31.2 million. This includes items that have been authorized and appropriated by Congress and/or funded by the customer. The unfunded backlog is approximately $4.3 million and represents firm multi-year orders for which funding has not yet been appropriated by Congress. While there is no guarantee that future budgets and appropriations will provide funding for a given program, management has included in unfunded backlog only those programs that it believes are likely to receive funding. The unfunded backlog at September 30, 2005 was $8.7 million. The backlog at September 30, 2006 as discussed

above, includes significant orders for military and industrial power supplies, and contracts to manufacture certain customer products in accordance with pre-engineered requirements.

Management, along with the Board of Directors, continues to evaluate the need and use of the Company's working capital. Expectations are that the working capital will be required to fund the increase in orders over the next several quarters, dividend payments, and general operations of the business. Also, the Mergers and Acquisitions Committee of the Board of Directors continues to evaluate potential strategic options on a periodic basis.

Critical Accounting Policies and Estimates

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

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

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

Results of Operations

Net sales for the three months ended September 30, 2006 were $6,071,906 as compared to $4,560,574 for the same period in 2005, representing a 33.1% increase. Generally, this increase can be attributed to the contract specific nature of the Company's business. The Company continues to deliver product on its single largest order for power supplies. The increase in sales for the quarter is largely attributable to an increase in shipments to two customers for power supplies and transformers. New orders received in the first three months of fiscal 2007 were approximately $3.9 million compared to approximately $18.1 million in the first three months of fiscal 2006. Additional orders are expected to be received in the next several months and new orders for fiscal 2007 are expected to be equivalent to or exceed the value of new orders received in 2006 of approximately $26.8 million.

The primary factor in determining gross profit and net income is product mix.

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

For the three months ended September 30, 2006 and 2005 gross profits were $1,397,308 and 880,290, respectively. Gross profit as a percentage of sales was 23.0% and 19.3%, for the three months ended September 30, 2006 and 2005, respectively. The improved gross profit percentage in the three months ended September 30, 2006, relates to favorable product mix and lower overhead expenses primarily due to decreased engineering salary expense. Management continues to evaluate the Company's workforce to ensure that production and overall execution of the backlog orders and additional anticipated orders are successfully performed. Employment at September 30, 2006 and 2005 was 173 people.

Selling, general and administrative expenses were $726,980 for the three months ended September 30, 2006, an increase of $57,261 compared to the three months ended September 30, 2005. The increase is primarily due to the requirement to record stock option expense in accordance with new accounting rules (see note 3 to the financial statements).

Other income for three months ended September 30, 2006 increased as compared to the three months ended September 30, 2005, due to increased interest income on the Company's cash and cash equivalents and short-term

investments due to higher interest rates. The Company does not believe that there is a significant risk associated with its investment policy, since at September 30, 2006 all of the investments are primarily represented by short-term liquid investments including certificates of deposit and money market accounts.

The effective income tax rate at September 30, 2006 and 2005 was 33.7% and 29.0%, respectively. The effective tax rate is less than the statutory tax rate mainly due to the foreign exportation benefit the Company receives on its international sales, the Qualified Production Activities benefit, and the benefit derived from the ESOP dividends paid on allocated shares.

Net income for the three months ended September 30, 2006, was $543,050 or $.27 and $.26 per share, basic and diluted, respectively, compared to $217,744 or $.11 per share, both basic and diluted, for the three months ended September 30, 2005. The increase in net income per share was due to improved gross profit as a percentage of sales, offset partially by the increase in selling, general and administrative expenses.

Liquidity and Capital Resources

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

The Company's working capital as of September 30, 2006 was approximately $26.7 million. During the three months ended September 30, 2006 and 2005 the Company repurchased 1,766 and 24,284 shares, respectively, of its common stock from the Company's Employee Retirement Plan and Trust ("ESOP"), for a total purchase price of $31,126 and $417,685, respectively. Under existing authorizations from the Company's Board of Directors, as of September 30, 2006, management is authorized to purchase an additional $968,874 of Company stock.

	Three Months Ended September 30, 2006	2005
Net cash provided by (used in) operating activities	$ 1,584,694	$ (5,962)
Net cash used in investing activities	(397,933)	(4,673,426)
Net cash (used in) provided by financing activities	(195,025)	3,890,007

Net cash provided by operating activities fluctuates between periods primarily as a result of differences in net income, the timing of the collection of accounts receivable, purchase of inventory, level of sales and payment of accounts payable. Net cash used in investing activities decreased in the first three months of fiscal 2007 due to the decrease in purchases of short-term investments and the ESOP transaction described in note 6 which occurred in the prior year. The decrease in cash provided by financing activities is due primarily to the decrease in purchases of short-term investments and the ESOP transaction described in note 6 which occurred in the prior year and less purchases of treasury stock during the current quarter.

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

During the three months ended September 30, 2006 and 2005, the Company expended $109,933 and $50,426, respectively, for plant improvements and new equipment. The Company has budgeted approximately $400,000 for new equipment and plant improvements in fiscal 2007. Management presently anticipates that the funds required will be available from current operations.

The Company has entered into standby letters of credit agreements with financial institutions primarily relating to the guarantee of future performance on certain contracts. Contingent liabilities on outstanding standby letters of credit agreements aggregated $246,625 at September 30, 2006. The Company does not expect to fund any of the amounts under the standby letters of credit.

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Other Matters

On July 15, 2005, pursuant to a Stock Purchase Agreement dated as of such date, the Company sold 150,000 shares of its common stock, par value $0.33-1/3 per share, to the Espey Mfg. & Electronics Corp. Employee Stock Ownership Plan Trust (the "ESOP"). The ESOP paid $28.90 per share, for an aggregate purchase price of $4,335,000. 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 and the unpaid balance will bear interest at a fixed rate of 6.25% per annum, the "prime rate" as quoted in The Wall Street Journal on the date of closing. The above ESOP information has not been adjusted for the stock split described in note 7.

The Board of Directors of the Company approved a purchase price per share equal to a 5% discount on the average trading price of the Company's common stock on the American Stock Exchange on the date before closing, but in no event greater than the fair market value as determined by an independent valuation firm retained by the ESOP. The average trading price of the Company's common stock on the American Stock Exchange on July 14, 2005 was $30.72.

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 380,120 shares of the Company's 1,158,294 outstanding shares of common stock as of July 15, 2005. As of September 30, 2006, there were 444,202 shares (after giving effect to the one-for-one stock dividend) allocated to participants.

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 and other risks and uncertainties. The foregoing list should not be construed as exhaustive, and the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

Item 3. Controls and Procedures

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

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

PART II: Other Information and Signatures

Item 1. Legal Proceedings

None

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

(a) None

(c) Securities Repurchased

Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Program (1)
August 1 to August 31, 2006	1,766	$17.625	1,766	$968,874

(1) Pursuant to a prior Board of Directors authorization, as of September 30, 2006 the Company can repurchase up to $968,874 of its common stock pursuant to an ongoing plan.

Item 3 Defaults on Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

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

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

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

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

S I G N A T U R E S

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

ESPEY MFG. & ELECTRONICS CORP.

/s/ Howard Pinsley

Howard Pinsley, President and
Chief Executive Officer

/s/ David O'Neil

David O'Neil, Treasurer and
Principal Financial Officer

November 14, 2006

Date