

ESPEY MFG & ELECTRONICS CORP
Form DEF 14A
October 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant x

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

ESPEY MFG. & ELECTRONICS CORP.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

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1) Title of each class of securities to which transaction applies:

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4) Date Filed:

ESPEY MFG. & ELECTRONICS CORP.

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO
BE HELD DECEMBER 7, 2018**

October 26, 2018

To the Shareholders of

ESPEY MFG. & ELECTRONICS CORP.:

You are cordially invited to attend the Annual Meeting of Shareholders of Espey Mfg. & Electronics Corp., which will be held at The Courtyard by Marriott, 11 Excelsior Ave., Saratoga Springs, New York, on December 7, 2018, at 9:00 a.m., Eastern Standard Time, for the following purposes:

1. To elect as Class A Directors to serve for a three year term expiring at the 2021 Annual Meeting or until their respective successors are duly elected and qualify, the three nominees named in the attached proxy statement;
2. To elect as a Class B Director to serve for the remaining one year term expiring at the 2019 Annual Meeting or until his successor is duly elected and qualifies, the nominee named in the attached proxy statement;
3. To elect as a Class C Director to serve for the remaining two year term expiring at the 2020 Annual Meeting or until his successor is duly elected and qualifies, the nominee named in the attached proxy statement; and
4. To ratify the appointment of Freed Maxick CPAs, P.C. as the Company's independent public accountants for the fiscal year ending June 30, 2019.

No other business may be transacted at the meeting.

The Board of Directors has fixed the close of business on October 12, 2018, as the record date for the purpose of determining shareholders entitled to notice of, and to vote at, said meeting or any adjournment thereof. The books for transfer of the Company's capital stock will not be closed.

Even if you expect to attend the meeting in person, it is urged by the Company that you mark, sign, date, and return the enclosed proxy. The proxy may be revoked at any time before it is voted and shareholders who execute proxies may nevertheless attend the meeting and vote their shares in person. Every properly signed proxy will be voted as specified unless previously revoked.

By Order of the Board of Directors,

Peggy A. Murphy
Corporate Secretary

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR
THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD DECEMBER 7, 2018:**

This notice of Annual Meeting, Proxy Statement and accompanying Annual Report to the Shareholders are available at our website at <http://www.espey.com>.

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Please make your selection and sign and date the enclosed proxy and mail it promptly in the accompanying pre-addressed, postage-free envelope.

ESPEY MFG. & ELECTRONICS CORP.

233 Ballston Avenue

Saratoga Springs, New York 12866

PROXY STATEMENT

The enclosed proxy is solicited by the Board of Directors of Espey Mfg. & Electronics Corp. (the “Company”) for use in voting at the Annual Meeting of the Shareholders of the Company to be held at The Courtyard by Marriott, 11 Excelsior Ave., Saratoga Springs, New York, on December 7, 2018, at 9:00 a.m., Eastern Standard Time, and at any postponement or adjournment thereof, for the purposes set forth in the attached Notice of Meeting. It is anticipated that the Notice of Annual Meeting of Shareholders, this Proxy Statement and the form of proxy will be mailed on or about October 29, 2018.

VOTING AND REVOCABILITY OF PROXIES

Every properly dated, executed and returned proxy will be voted at the Annual Meeting in accordance with the instructions of the shareholder. If no specific instructions are given, the shares represented by such proxy will be voted (i) FOR the election of the Class A Directors nominated by the Board of Directors, for a three year term, and (ii) FOR the election of the Class B Director nominated by the Board of Directors, for the remaining one year term, and (iii) FOR the election of the Class C Director nominated by the Board of Directors, for the remaining two year term, and (iv) FOR ratification of the appointment of Freed Maxick CPAs, P.C. as the Company’s independent public accountants for the fiscal year ending June 30, 2019. Any shareholder giving a proxy has the power to revoke it at any time prior to the voting thereof by voting in person at the Annual Meeting, by giving written notice to the Secretary prior to the Annual Meeting, or by signing and delivering a new proxy card bearing a later date. The Company’s only class of voting securities is its Common Stock, par value \$.33-1/3 per share (the “Common Stock”). Each share of Common Stock outstanding on the record date will be entitled to one vote on all matters. In accordance with the Company’s By-Laws and applicable state law, the election of directors will be determined by a plurality of the votes cast by the holders of shares of Common Stock present and entitled to vote thereon, in person or by proxy, at the Annual Meeting. Shares present which are properly withheld as to voting with respect to any one or more nominees, and shares present with respect to which a broker indicates that it does not have authority to vote (“broker non-votes”) will not be counted. Cumulative voting in connection with the election of directors is not permitted.

Please note that in accordance with rules of the New York State Stock Exchange governing brokers, the election of directors (Proposals No. 1, No. 2 and No. 3) are “non-discretionary” items. Shares which are held in a brokerage account as to which the broker does not receive instructions on how to vote with respect to these items may not be voted with respect to these proposals and those votes will be counted as “broker non-votes.”

What are Broker Non-Votes? Broker non-votes are shares held in the street name by a broker that the broker has no discretionary authority to vote. Brokers do not have authority to vote on matters considered to be non-routine unless they have received instructions from the beneficial owners of the shares.

Shares which are voted to abstain and broker non-votes are not counted as votes cast on any matter to which they relate.

The By-Laws of the Company provide that the majority of the shares of the Common Stock of the Company issued and outstanding and entitled to vote, present in person or by proxy, shall constitute a quorum at the Annual Meeting. Shares which are voted to abstain are considered as present at the Annual Meeting for the purposes of determining a quorum. Broker non-votes are considered as present at the Annual Meeting for the purposes of determining a quorum.

RECORD DATE AND SHARE OWNERSHIP

Only holders of Common Stock of record on the books of the Company at the close of business on October 12, 2018, will be entitled to vote at the meeting. There were 2,396,323 shares of Common Stock outstanding and entitled to vote on October 12, 2018.

Proposals no. 1, no. 2, and no. 3

ELECTION OF DIRECTORS

The Company's Certificate of Incorporation, as amended, provides that the Board of Directors shall consist of not less than three nor more than nine persons with the actual number determined in accordance with the Company's By-Laws. The Certificate of Incorporation further provides that there shall be three classes of directors (Class A, Class B and Class C) with overlapping three-year terms and that all classes shall be as nearly equal in number as possible.

The Board of Directors has fixed the present number of directors at nine. The terms of three Class A Directors expire at the Annual Meeting. The Board of Directors increased the number of directors from seven to nine on June 1, 2018, appointed Roger N. Sexauer II and David A. O'Neil to the vacancies created by such increase, and assigned them to Class B and Class C, respectively. Under the Company's By-Laws, the terms of the appointments expire at the Annual Meeting. There are also presently two additional Class B Directors, whose terms expire at the 2019 Annual Meeting, and two additional Class C Directors, whose terms expire at the 2020 Annual Meeting.

The Board of Directors has nominated three persons to stand for election as Class A Directors. The Board of Directors has also nominated Mr. Sexauer to stand for election as a Class B Director for the remaining one year of the Class B unexpired term, and Mr. O'Neil to stand for election as a Class C Director for the remaining two years of the Class C unexpired term.

The votes will be cast pursuant to the enclosed proxy for the election of each of the Class A, Class B and Class C nominees named unless specification is made withholding such authority. Each of the nominees is presently a director of the Company. Should any of said nominees become unavailable, which is not anticipated, the proxies named in the enclosed proxy will vote for the election of such other persons as the Board of Directors may recommend. Proxies may not be voted for a greater number of persons than the nominees named.

The names and business experience for the past five years of the five persons who have been nominated by the Board of Directors to stand for election as directors at the Annual Meeting and the remaining directors whose terms are continuing until the 2019 or 2020 Annual Meeting appear below.

The Board has determined that all of the Board members with the exception of Howard Pinsley, Patrick T. Enright, Jr., and David A. O'Neil are independent in accordance with the listing standards of the NYSE American and the By-Laws of the Company.

The independent members of the Board met four times during the fiscal year ended June 30, 2018, incidental to each regularly scheduled Board of Directors, with no members of management present.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE FOLLOWING
NOMINEES FOR CLASS A DIRECTORS.

| <u>Name</u> | <u>Age</u> | <u>Offices and Positions Held With Company</u> | <u>Principal Occupation or Employment</u> | <u>Period to Date</u> | <u>Served as Director</u> |
|--------------------|------------|--|---|-----------------------|---------------------------|
| Carl Helmetag | 70 | | An independent business consultant working for profit and non-profit entities. Mr. Helmetag was Vice President Sales of AlphaMicron Inc., Kent, Ohio from 2009 - 2011; President and CEO of UVEX Sports Inc. in Cranston, R.I. from 1999 - 2009; President and CEO of HEAD USA Inc. 1996 - 1999; Vice President and then President at Dynastar Inc. from 1978 - 1996. He has a MBA from The Wharton School of Business, University of Pennsylvania and a BA in Economics from the University of Wisconsin. Mr. Helmetag is a trustee and the Treasurer of the Newport Art Museum. | 1999 | |
| Howard Pinsley (1) | 78 | | Howard Pinsley spent his entire career with the Company. He served as Program Director prior to being elected Vice President-Special Power Supplies on April 3, 1992. On December 6, 1996, Mr. Pinsley was elected to the position of Executive Vice President. On June 9, 1998 he was elected to the positions of Chief Operating Officer and President. Subsequently he became Chief Executive Officer and Chairman of the Board. On February 28, 2010 Mr. Pinsley retired from the position of President and Chief Executive Officer. | 1992 | |
| Alvin O. Sabo | 75 | | Retired attorney, most recently Of Counsel to the law firm of Donohue, Sabo, Varley & Huttner, LLP in Albany, NY. He was a partner with a predecessor firm beginning in 1980. Prior to that position, he was Assistant Attorney General, State of New York, Department of Law for eleven years and an associate with the intellectual property firm of Kenyon and Kenyon for two years. | 1999 | |

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE FOLLOWING
NOMINEE FOR CLASS B DIRECTOR.

| <u>Name</u> | <u>Age</u> | <u>Offices and Positions Held With Company</u> | <u>Principal Occupation or Employment</u> | <u>Period to Date</u> | <u>Served as Director</u> |
|---------------------|------------|--|---|-----------------------|---------------------------|
| Roger N. Sexauer II | 60 | | An independent consultant primarily working with companies in the defense industry, specializing in strategic planning and business development. From 2004-2018, Mr. Sexauer served in various senior positions with Leonardo DRS, Inc., holding the titles Executive Vice President, Business Development, | 2018 | |

2016-2018; President DRS Maritime and Combat Support Systems, 2014-2016; President DRS Power and Environmental Systems, 2008-2014; President, DRS Power Systems, 2005-2008; DRS C41 Group Vice President Business Development, 2004-2008. Prior thereto, he was employed by General Dynamics Electric Boat. Mr. Sexauer is a graduate of the United States Naval Academy. He serves on the Boards of Directors of the Naval Submarine League, Navy Memorial, and the American Shipbuilding Supplier Association.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE FOLLOWING
NOMINEE FOR CLASS C DIRECTOR.

| <u>Name</u> | <u>Age</u> | <u>Offices and Positions Held With Company</u> | <u>Principal Occupation or Employment</u> | <u>Period to Date</u> | <u>Served as Director</u> |
|-----------------|------------|---|---|-----------------------|---------------------------|
| David A. O'Neil | 53 | Executive Vice President, Treasurer and Chief Financial Officer | A Certified Public Accountant who has been Treasurer and Chief Financial Officer of the Company since January 4, 2000, and Executive Vice President since December 2, 2016. Mr. O'Neil served as Interim President and CEO from June 2, 2014 until January 31, 2015. Prior to joining the Company, he was a Senior Manager at the accounting firm KPMG LLP. | 2018 | |

CONTINUING CLASS B DIRECTORS – SERVING FOR A THREE YEAR TERM

EXPIRING AT THE 2019 ANNUAL MEETING.

| <u>Name</u> | <u>Age</u> | <u>Offices and Positions Held With Company</u> | <u>Principal Occupation or Employment</u> | <u>Period to Date</u> | <u>Served as Director</u> |
|------------------------|------------|--|---|-----------------------|---------------------------|
| Patrick T. Enright Jr. | 57 | President and CEO | Prior to his employment with the Company Mr. Enright was employed by DRS Technologies from May, 2010 until January, 2015 and last held the position of Vice President of Strategic Planning. He previously held other senior positions in the power electronics and ship building industry for over 25 years at Northrup Grumman, Newport News Shipbuilding, Henschel Corporation and Vessel Management Group. Mr. Enright served in the United States Merchant Marines from June, 1983 to June, 1990. | 2015 | |
| Barry Pinsley (1) | 77 | | Certified Public Accountant who for five years acted as a consultant to the Company prior to his election as a Vice President Special Projects on March 25, 1994. On December 6, 1997, Mr. Pinsley was elected to the position of Vice President-Investor Relations and Human Resources, from which he resigned on June 9, 1998. He continued as a non-executive officer through December 31, 2005. Mr. Pinsley was a practicing Certified Public Accountant in Saratoga Springs, New York from 1975, and is currently retired. | 1999 | |

CONTINUING CLASS C DIRECTORS – SERVING FOR A THREE YEAR TERM

EXPIRING AT THE 2020 ANNUAL MEETING.

| <u>Name</u> | <u>Age</u> | <u>Offices and Positions Held With Company</u> | <u>Principal Occupation or Employment</u> | <u>Period to Date</u> | <u>Served as Director</u> |
|--------------|------------|--|---|-----------------------|---------------------------|
| Paul J. Corr | 74 | | Certified Public Accountant who has been a Principal at Capital Financial Advisors of New York, LLC, Clifton Park, NY since 2003. Mr. Corr is currently Visiting Associate Professor of Management and Business at Skidmore College where he teaches financial accounting theory and financial analysis. In May 2007, he had retired from Skidmore College where he had taught since 1981. Mr. Corr was also a shareholder in the Clifton Park, NY accounting firm of Rutnik & Corr, P.C. from July 1999 through August 2011, and he had practiced as a certified public accountant for many years prior to 1999. | 1992 | |
| Michael Wool | 72 | | Attorney engaged in private practice of law and senior partner since 1982 in the law firm of Langrock, Sperry & Wool, with offices in Burlington, VT and Middlebury, VT. Mr. Wool also serves on the board of the New England Board of Higher Education as former Chair and as a Director Emeritus of the Boys and Girls Club of Burlington, VT. | | |

(1) Barry Pinsley and Howard Pinsley are cousins.

None of the directors holds a directorship in any other company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of the Securities Act of 1933 or any company registered as an Investment Company under the Investment Company Act of 1940.

BOARD OF DIRECTORS QUALIFICATIONS

The Board of Directors believes that with respect to current Board members, a demonstration of dedicated commitment to the responsibilities of a director is a leading criteria for assessing such person’s qualifications for continued service on the Board. The Board will also consider a nominee’s relationship to the Company and the following skill sets and experience in evaluating Board candidates: industry experience, corporate management experience, financial acumen, experience in international sales, mergers and acquisition experience and corporate governance experience.

The specific experiences, qualifications, attributes and skills of each of the nominees for director and the individuals continuing as directors are as follows:

Director Nominees

Mr. Helmetag has a very strong business leadership, financial management and strategic planning background through his long career as a senior executive in several corporations. His personal experience in business development, economic conditions and financial issues is an invaluable resource for the Board on a myriad of matters it must consider from time to time.

Mr. Howard Pinsley's affiliation with the Company for his entire professional career and his long-term service as a senior executive officer provides him with intimate knowledge of every aspect of the Company's operations. His personal role in the development of the Company's product line and his personal contacts with relationship persons at the Company's domestic and international customers provides the Board with a vital resource in drawing upon the Company's historic strengths while considering initiatives for future growth and development of the Company's business.

Mr. Sabo's experience through his long career as a commercial, government contracts and personal injury litigation lawyer is an asset to the Audit Committee and the full Board in its evaluation of legal, operational and employment-related risks. His educational background in electrical engineering, his experience in patent and intellectual property law and his experience in insurance coverage matters is valuable to the Board's consideration of numerous issues pertaining to the Company's business.

Mr. Sexauer has long-term and strong leadership, financial acumen, strategic planning and business development skills in the defense industry. His long-term employment with Leonardo DRS, and before that General Dynamics, as well as his historic relationships with the United States Navy, are assets to the Board in its oversight of the development of the Company's business with defense industry contractors.

Mr. O'Neil is the Company's Executive Vice President, Treasurer and Chief Financial Officer, and has served as a Company Officer since 2000. Mr. O'Neil is integrally involved with the Company's strategic business development plans, bids for new business, and the administration of the Company's relationships with long-term customers.

Continuing Directors

Mr. Enright is the Company's President and Chief Executive Officer and through his day-to-day involvement in all aspects of the Company's operations provides a vital link between junior and senior management personnel and the general oversight and policy setting responsibilities of the Board. Among the reasons Mr. Enright was hired in 2015 was his extensive experience in various executive capacities in the defense and shipbuilding industries, with responsibilities in strategic planning, business unit leadership, program management, and systems and solutions implementation. This provides a major asset to the Board in its oversight of customer retention, new business development and expansion of the Company's core business in defense and industrial power electronics.

Mr. Barry Pinsley was associated with the Company in various consulting and employment capacities for more than thirty-five years and assists the Board with his knowledge regarding the Company's product lines, operations and corporate culture as a small public company that evolved from a family-owned firm. In addition, his experience as a certified public accountant is an asset to the Board in its consideration of financial matters.

Mr. Corr's experience as a certified public accountant, investment advisor and professor of management and business at Skidmore College teaching accounting theory, financial analysis, and finance, brings strong financial skills to the

Board and qualifies him as the Audit Committee financial expert and the person on the Board responsible for risk assessment oversight.

Mr. Wool is a business and tax lawyer with over forty years of experience advising a broad range of clients in a broad spectrum of business, tax, governmental, commercial, employment and transactional matters. He provides

6

valuable insight and advice to the Espey Board in its deliberations and consideration of strategic initiatives including potential business combinations and acquisitions, employee and executive compensation matters, corporate governance matters and other legal issues. Mr. Wool played a key role in the design and adoption of the Espey Employee Stock Ownership Plan (“ESOP”) and consults with management concerning the plan’s ongoing operation.

OTHER EXECUTIVE OFFICERS

The only individuals currently considered executive officers of the Company not previously identified are:

Katrina L. Sparano, 48, Assistant Treasurer and Principal Accounting Officer of the Company since November 12, 2004. Ms. Sparano is a Certified Public Accountant. Prior to joining the Company on July 29, 2004, she was the Assistant Controller for Cambridge Heart, Inc. Ms. Sparano served as Interim Principal Financial Officer from June 2, 2014 until January 31, 2015.

Peggy A. Murphy, 60, Secretary of the Company since December 11, 1998. She has been employed by the Company as Director of Human Resources and Facility Security Officer since October 1998.

The terms of office of all executive officers are until the next Annual Meeting of the Board of Directors unless successors are sooner appointed by the Board of Directors.

BOARD OF DIRECTORS MEETINGS AND COMMITTEES

During the Company’s fiscal year ended June 30, 2018, the Board of Directors held a total of six meetings, and each director then in office attended at least 75% of such meetings. Under the policies of the Board, Directors are expected to attend regular Board meetings, Board committee meetings, as applicable, and the Annual Meeting of Shareholders.

The Board has a standing Audit Committee whose members are Paul J. Corr, Chairman, Alvin O. Sabo, Carl Helmetag and Roger N. Sexauer II. The functions of this Committee include reviewing the engagement of the independent accountants, the scope and timing of the audit and any non-audit services to be rendered by the independent accountants, reviewing with the independent accountants and management the Company’s policies and procedures with respect to internal auditing, accounting and financial controls, and reviewing the report of the independent accountants upon completion of its audit. During the fiscal year ended June 30, 2018, the Audit Committee held five meetings, and each Committee member attended at least 75% of such meetings. Mr. Sexauer was appointed to the Audit Committee effective September 7, 2018.

The Board has a standing Nominating Committee whose members are Carl Helmetag, Chairman, Michael Wool, Alvin O. Sabo, Paul J. Corr and Roger N. Sexauer II. The function of this Committee is to identify and recommend to the Board individuals for nomination to fill vacancies in, and for re-nomination to, positions as Directors of the Corporation. During fiscal year ended June 30, 2018, the Nominating Committee held one meeting and each Committee member attended the meeting. Mr. Sexauer was appointed to the Nominating Committee effective September 7, 2018.

The Board of Directors has a standing Compensation Committee whose members are Michael Wool, Chairman, Carl Helmetag and Barry Pinsley. The functions of this Committee include recommending to the full Board all compensation programs applicable to executive officers including salaries paid to executive officers, the compensation paid to non-employee directors and the grant of all forms of bonuses and stock-based compensation including to whom, and the time or times at which, options or stock awards will be granted, the number of shares of common stock that underlie each grant and the exercise price and vesting schedule. During the fiscal year ended June 30, 2018, the Compensation Committee held three meetings and each Committee member attended such meetings.

The Board also has a Succession Committee, members of which are Paul J. Corr, Howard Pinsley, Alvin O. Sabo, Michael Wool and Patrick T. Enright, Jr., and a Mergers and Acquisition Committee, members of which are Howard Pinsley, Barry Pinsley, Michael Wool, David O'Neil, Roger N. Sexauer II and Patrick T. Enright, Jr.

Board Independence - The Board has determined that all of the members of the Audit Committee and the Nominating Committee meet the independence criteria for audit committee and nominating committee members as set forth in the listing standards of the NYSE American. The Board has further determined that Mr. Corr qualifies as an audit committee financial expert in accordance with the rules of the United States Securities and Exchange Commission (“SEC”).

Board Leadership - The Board of Directors has not designated an individual as the lead independent director. Rather, the Board will designate one of its independent directors to act as a lead director on an ad hoc basis. For example, the Succession Committee was responsible for overseeing the process of identifying a new Chief Executive Officer resulting in the hiring of Mr. Enright effective February 1, 2015. Mr. Sabo was designated as the lead independent director for this project.

Risk Oversight and Cybersecurity - The Board oversees the Company’s processes to manage risk and the Company’s cybersecurity program, and has delegated the primary responsibility for reviewing policies with respect to risk assessment, risk management and cybersecurity to the Audit Committee. Management is responsible for the development, implementation and maintenance of the risk management processes and cybersecurity program. The Audit Committee consults with the Company’s Director of Information Technology regarding ongoing cybersecurity initiatives, and requests such individual, together with senior management, to report to the Audit Committee or the full Board regularly on their assessment of operational, financial and accounting, competitive, reputational, cybersecurity and legal risks to the Company.

NON-EMPLOYEE DIRECTOR COMPENSATION

Company employees who also serve on the Company’s Board of Directors do not receive director’s fees. The non-employee Directors receive an annual fee of \$52,200 for being a member of the Board of Directors. Each Director who also serves as a member of the Audit Committee is compensated an additional annual fee of \$2,500 with the exception of the Chairman who is compensated an additional annual fee of \$5,000. Each Director who serves as a member of the Succession Committee, Compensation Committee or the Mergers and Acquisition Committee is compensated an additional annual fee of \$2,500 for each committee. Mr. Wool, Chairman of the ESOP Committee, is compensated an additional annual fee of \$2,500. These fees are paid in monthly installments to the Directors.

During the fiscal year ending June 30, 2018, the Company modified its non-employee director retirement programs. Also during the fiscal year, following the assertion of claims by a shareholder concerning governance matters, the Company entered into a settlement agreement which terminated such programs and included the elimination of the position of “director emeritus”, the elimination of contingent severance compensation following the cessation of service as a Director, and the elimination of a mandatory retirement age.

The following table sets forth the compensation of the Company’s non-employee Directors for the fiscal year ending June 30, 2018:

| Name | Fees Earned or Option | | All Other Compensation (1) | Total |
|---------------------|-----------------------|------------|----------------------------|----------|
| | Paid in Cash | Awards (2) | | |
| | \$ | \$ | \$ | \$ |
| Paul Corr | \$59,700 | \$6,696 | \$0 | \$66,396 |
| Carl Helmetag | \$57,200 | \$5,580 | \$10,213 | \$72,993 |
| Barry Pinsley | \$57,200 | \$5,580 | \$2,510 | \$65,290 |
| Howard Pinsley | \$57,200 | \$5,580 | \$10,213 | \$72,993 |
| Alvin O. Sabo | \$57,200 | \$5,580 | \$0 | \$62,780 |
| Roger N. Sexauer II | \$4,350 | \$0 | \$0 | \$4,350 |

| | | | | |
|--------------|----------|---------|---------|----------|
| Michael Wool | \$62,200 | \$5,580 | \$5,020 | \$72,800 |
|--------------|----------|---------|---------|----------|

8

Represents the dollar amount contributed for Director's medical health insurance for fiscal year ended June 30, (1)2018. Subsequent to January 31, 2019, non-employee Directors will no longer be eligible to participate in the Company's medical health insurance program.

Represents the aggregate grant date fair value dollar amount computed in accordance with ASC Topic 718. For (2)information concerning the assumptions made in the valuation of awards, see Note 11 of the Company's financial statements for fiscal year ended June 30, 2018.

The non-employee Directors held the following unexercised options at June 30, 2018:

| <u>Name</u> | <u>Number of Securities Underlying Unexercised Options # Exercisable</u> | <u>Number of Securities Underlying Unexercised Options # Unexercisable (a)</u> | <u>Option Exercise Price \$</u> | <u>Option Expiration Date</u> |
|----------------|--|--|---------------------------------|-------------------------------|
| Paul J. Corr | 2,000 | | \$17.09 | 2/20/2019 |
| | 1,600 | | \$19.20 | 8/19/2020 |
| | 1,600 | | \$25.10 | 8/26/2021 |
| | 1,600 | | \$25.18 | 6/01/2022 |
| | 1,600 | | \$27.22 | 8/23/2023 |
| | 1,600 | | \$26.09 | 6/12/2025 |
| | | | 2,000 | \$26.25 |
| | | 2,400 | \$21.75 | 10/10/2027 |
| Carl Helmetag | 1,400 | | \$17.09 | 2/20/2019 |
| | 1,600 | | \$19.20 | 8/19/2020 |
| | 1,600 | | \$25.10 | 8/26/2021 |
| | 1,600 | | \$25.18 | 6/01/2022 |
| | 1,600 | | \$27.22 | 8/23/2023 |
| | 1,600 | | \$26.09 | 6/12/2025 |
| | | | 1,600 | \$26.25 |
| | | 2,000 | \$21.75 | 10/10/2027 |
| Barry Pinsley | 1,400 | | \$17.09 | 2/20/2019 |
| | 1,600 | | \$19.20 | 8/19/2020 |
| | 1,600 | | \$25.10 | 8/26/2021 |
| | 1,600 | | \$25.18 | 6/01/2022 |
| | 1,600 | | \$27.22 | 8/23/2023 |
| | 1,600 | | \$26.09 | 6/12/2025 |
| | | | 1,600 | \$26.25 |
| | | 2,000 | \$21.75 | 10/10/2027 |
| Howard Pinsley | 1,600 | | \$25.10 | 8/26/2021 |
| | 1,600 | | \$25.18 | 6/01/2022 |
| | 1,600 | | \$27.22 | 8/23/2023 |
| | 1,600 | | \$26.09 | 6/12/2025 |
| | | | 1,600 | \$26.25 |
| | | 2,000 | \$21.75 | 10/10/2027 |

Alvin O. Sabo

| | | |
|-------|---------|-----------|
| 1,400 | \$17.09 | 2/20/2019 |
| 1,600 | \$19.20 | 8/19/2020 |
| 1,600 | \$25.10 | 8/26/2021 |
| 1,600 | \$25.18 | 6/01/2022 |
| 1,600 | \$27.22 | 8/23/2023 |
| 1,800 | \$26.09 | 6/12/2025 |

| <u>Name</u> | <u>Number of Securities Underlying Unexercised Options # Exercisable</u> | <u>Number of Securities Underlying Unexercised Options # Unexercisable (a)</u> | <u>Option Exercise Price \$</u> | <u>Option Expiration Date</u> |
|--------------|--|--|---------------------------------|-------------------------------|
| | | 1,600 | \$26.25 | 12/02/2026 |
| | | 2,000 | \$21.75 | 10/10/2027 |
| Michael Wool | | | | |
| | 1,600 | | \$19.20 | 8/19/2020 |
| | 1,600 | | \$25.10 | 8/26/2021 |
| | 1,600 | | \$25.18 | 6/01/2022 |
| | 1,600 | | \$27.22 | 8/23/2023 |
| | 1,600 | | \$26.09 | 6/12/2025 |
| | | 1,600 | \$26.25 | 12/02/2026 |
| | | 2,000 | \$21.75 | 10/10/2027 |

(a) Unexercisable options vest as follows: (i) Options with an expiration date of December 2, 2026 vest on December 2, 2018; and (ii) Options with an expiration date of October 10, 2027 vest on October 10, 2019.

COMPENSATION OF EXECUTIVE OFFICERS

The following table summarizes the annual compensation for each of the fiscal years ended June 30, 2018 and June 30, 2017 received by the Company's two most highly compensated executive officers who received over \$100,000 in total compensation for the fiscal year ended June 30, 2018 (collectively, the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary \$ | Bonus \$ | Option Awards \$ | (1) All Other Compensation \$ | (2) Total \$ |
|--|-------------|------------------|-----------------|-------------------------|--------------------------------------|---------------------|
| Patrick T. Enright Jr. <i>President and Chief Executive Officer</i> | 2018 | \$253,091 | \$100,000 | \$14,508 | \$18,594 | \$386,193 |
| | 2017 | \$248,839 | \$50,000 | \$18,560 | \$15,560 | \$332,959 |
| David A. O'Neil <i>Exec. Vice President/ Treasurer/CFO</i> | 2018 | \$167,909 | \$30,000 | \$8,161 | \$18,272 | \$224,342 |
| | 2017 | \$164,870 | \$30,000 | \$10,440 | \$15,256 | \$220,566 |

Represents the aggregate grant date fair value dollar amount computed in accordance with ASC Topic 718. For (1) information concerning the assumptions made in the valuation of awards, see Note 11 of the Company's financial statements for fiscal year ended June 30, 2018.

(2) All other compensation includes (i) the value of shares of the Company's common stock allocated to the Named Executive Officers' accounts in the Company's ESOP and (ii) the Company matching contributions to the Company 401(k) Plan, as set forth below. Dividends are paid on allocated shares in the Company's ESOP at the same time and rate and in the same form as dividends paid on common shares generally. ESOP shares allocated to the Named Executive Officers' accounts vest in accordance with the terms of the plan. At June 30, 2018, Mr. Enright and Mr. O'Neil were 20% and 100% vested, respectively.

| Name | Year | Value of | Company | Total |
|------------------------|------|----------------------|---------------|----------|
| | | allocated | Contributions | |
| | | shares | | |
| | | in Company to 401(k) | | |
| | | ESOP (\$) | Plan (\$) | |
| Patrick T. Enright Jr. | 2018 | \$14,991 | \$3,603 | \$18,594 |
| | 2017 | \$13,160 | \$2,400 | \$15,560 |
| David A. O'Neil | 2018 | \$14,830 | \$3,442 | \$18,272 |
| | 2017 | \$12,851 | \$2,405 | \$15,256 |

The following table sets forth information concerning outstanding equity awards held by the Company's Named Executive Officers at fiscal year-end June 30, 2018:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

| Name | Number of Securities | | Option Exercise Price \$ | Option Expiration Date |
|------------------------|----------------------------------|---|--------------------------|------------------------|
| | Underlying Options # Exercisable | Unexercised Options # Unexercisable (a) | | |
| Patrick T. Enright Jr. | 10,000 | | \$26.53 | 2/02/2025 |
| | 4,000 | | \$26.09 | 6/12/2025 |
| | | 4,000 | \$26.25 | 12/2/2026 |
| | | 5,200 | \$21.75 | 10/10/2027 |
| David A. O'Neil | 2,000 | | \$17.09 | 2/20/2019 |
| | 2,000 | | \$19.20 | 8/19/2020 |
| | 2,000 | | \$25.10 | 8/26/2021 |
| | 2,000 | | \$25.18 | 6/01/2022 |
| | 2,000 | | \$27.22 | 8/23/2023 |
| | 2,000 | | \$26.09 | 6/12/2025 |
| | | 2,250 | \$26.25 | 12/2/2026 |
| | | 2,925 | \$21.75 | 10/10/2027 |

(a) Unexercisable options vest as follows: Options with an expiration date of December 2, 2026, vest on December 2, 2018, and Options with an expiration date of October 10, 2027 vest on October 10, 2019.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth information as of June 30, 2018 with respect to compensation plans under which equity securities of the Company may be issued:

Equity Compensation Plan INFORMATION

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of Securities remaining available for future issuance under equity compensation plan (excluding securities reflected in Column (a)) (c) |
|--|---|---|--|
| Equity compensation plans approved by security holders | 222,854 | \$24.29 | 349,095 |
| Equity compensation plans not approved by security holders | 222,854 | | 349,095 |

INSURANCE

The executive officers of the Company can elect to be covered under the company-sponsored medical health plans, which do not discriminate in favor of the officers of the Company and which are available generally to all employees. Non-executive directors of the Company have been, but subsequent to January 31, 2019, will no longer be eligible to be covered under the company-sponsored medical health insurance. In addition, the executive officers are covered under a group life plan, which does not discriminate, and is available to all employees.

The Company maintains insurance coverage, as authorized by Section 726 of the New York Business Corporation Law, providing for (a) reimbursement of the Company for payments it makes to indemnify officers and directors of the Company, and (b) payment on behalf of officers and directors of the Company for losses, costs and expenses incurred by such individuals in any actions.

EMPLOYEE RETIREMENT PLAN AND TRUST

Under the Company's ESOP, approved by the Board of Directors on June 2, 1989, effective July 1, 1988, all non-union employees of the Company, including the Company's executive officers and non-executive officers are eligible to participate. The ESOP is a non-contributory plan, which is designed to invest primarily in shares of common stock of the Company. Certain technical amendments not considered material were adopted effective as of June 10, 1994, July 1, 2003, July 1, 2005, and July 1, 2016.

Of the 459,032 shares of common stock of the Company allocated to participants of the ESOP as of June 30, 2018, 1,788 shares were allocated to Mr. Enright and 14,768 shares were allocated to Mr. O'Neil. Messrs. Enright and O'Neil were 20% and 100% vested, respectively, in their accounts as of June 30, 2018.

The ESOP's purchase of common stock from the Company has been financed by loans from the Company to the ESOP. Each year the Company makes contributions to the ESOP, which are used to make loan interest and principal payments to the Company. Following each payment of principal on the loan, a portion of the unallocated shares held by the ESOP is allocated to participants.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT

The Company has an Employment Agreement with Patrick T. Enright Jr., President and Chief Executive Officer. The agreement was effective February 1, 2018 and expires January 31, 2021, but will automatically renew for an additional one year period unless either the Company or the employee gives at least 60 days' notice to the contrary. The agreement provides for the payment of base compensation and bonus compensation. Mr. Enright is entitled to an annual performance-based cash bonus currently comprised of three components, with the maximum aggregate amount payable not to exceed his annual base salary. The first component is discretionary, based upon an annual performance assessment and may not exceed 50% of the base

salary. The second component is based on the increase in combined sales plus backlog over the average of the prior three fiscal years, times 0.5% (one half of one percent), and may not exceed 50% of base salary. The third component is based on the increase in operating earnings over the average of the prior three fiscal years, times 5% (five percent), and may not exceed 50% of base salary. In calculating backlog, adjustments are made in the case of a specific customer contract. In order to be eligible for the bonus compensation for a fiscal year ending June 30, Mr. Enright must be employed on December 31 following such fiscal year end. If Mr. Enright is terminated without “cause” he is entitled to nine months’ severance pay of his then current base salary, any amount of bonus to which he may be entitled based upon the non-discretionary components and health benefits.

The Company has an Employment Agreement with David A. O’Neil Executive Vice President, Treasurer and Chief Financial Officer. The agreement was effective March 1, 2013 and automatically renews for additional one year periods subsequent to June 30, 2016 unless either the Company or Mr. O’Neil gives at least 60 days’ notice to the contrary. The agreement provides for the payment of base compensation and bonus compensation as determined by the Board in its discretion. If he is terminated without “cause” or incidental to a change of control or if he terminates employment for “good reason” he is entitled to nine months’ severance pay of his then current base salary plus health benefits.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors (the “Committee”) is comprised of four independent directors and operates under a written charter, revised most recently by the Board on September 7, 2018. The Audit Committee Charter is available on the Company’s website at www.espey.com under the tab “Investors”.

In fulfilling its responsibilities, the Committee has reviewed and discussed the Company’s audited consolidated financial statements for the fiscal year ended June 30, 2018 with management and the independent auditors.

The Committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees). In addition, the Committee has received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No.1 (Independence Discussions with Audit Committees), and has discussed with the auditors the auditors’ independence.

The Committee considered and concluded that the provision of non-audit services by the independent auditors was compatible with maintaining their independence.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements referred to above be included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

Audit Committee:

Paul J. Corr, Chairman

Carl Helmetag

Alvin O. Sabo

Roger N. Sexauer II¹

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The Nominating Committee of the Board of Directors (the “Nominating Committee”) is comprised of four independent directors and operates under a written charter. A copy of the charter is available on the Company’s website, www.espey.com, under the tab “Investors”.

¹ Mr. Sexauer was appointed to the Audit Committee on September 7, 2018 and did not participate in Committee discussions regarding the financial statements for the fiscal year ended June 30, 2018.

The Nominating Committee will review the present needs of the Board and establish criteria as to particular qualifications in terms of background and experience that could meet such needs. At a minimum, the Nominating Committee believes that nominees for Directors should have either experience in the industry in which the Company engages or professional, business or academic qualifications that differ from existing members of the Board and could augment the aggregate expertise possessed by Board members. In addition to industry experience, the Nominating Committee will consider the following skill sets and experience; corporate management experience, financial acumen, experience in international sales, mergers and acquisition experience and corporate governance experience. The Company further believes that all nominees should be able to make a contribution to the Board that will enhance the development and growth of the Company's business and shareholder value; devote adequate time to service as a Director; and work well with other Board members in a collegial manner.

The Nominating Committee evaluates prospective nominees identified on its own initiative or referred to it by other Board members, management, shareholders or external sources and all self-nominated candidates. The Nominating Committee will use the same criteria for evaluating candidates nominated by shareholders and self-nominated candidates as it does for those proposed by other Board members, management and search companies.

The Nominating Committee's evaluation of existing Board members and prospective new Board members and the implementation of a diversity policy will be in the context of determinations made regarding the size of the Board of Directors. The Company is a small business with less than \$40 million in sales and operations at only one location. Although the Board recently determined to increase its size from seven to nine members, such decision was made in the context of an expectation of retirements by existing Board members over the next several years. Due to the size of the Company's business and the relatively simple corporate structure, the Board may not maintain the number of authorized number of directors at nine. However, as existing directors retire, if a determination is made to continue the current number of directors, diversity is a factor that will be considered by the Nominating Committee in selecting new nominees.

The Nominating Committee will consider bona fide recommendations by shareholders as to potential Director nominees, who meet the above standards. A shareholder wishing to submit such a recommendation should send a letter, postmarked no more than 180 days and no later than 120 days prior to the date on which the Company's Annual Meeting was held during the prior year, to the Secretary of the Company. In the case of an Annual Meeting that is called for a date that is not within 30 calendar days before or after the first anniversary date of the Annual Meeting of Shareholders in the immediately preceding year, any such written proposal of nomination must be received by the Secretary not less than five days after the Corporation shall have issued a press release, filed a periodic report with the Securities and Exchange Commission or otherwise publicly disseminated notice that an Annual Meeting of Shareholders will be held. The letter must identify its writer as a shareholder of the Company, provide evidence of the writer's stock ownership and provide:

- The name, address, telephone number and social security number of the candidate to be considered; A description of understandings, contractual, business or familial relationships between the shareholder and the candidate, if any, and an unexecuted written consent of the candidate to serve as a director of the Company, if nominated and elected;
 - The candidate's resume and at least three references;
- A statement of the candidate's qualifications to serve on the Board of Directors and specified Board committees which shall include an explanation as to how elements of the candidate's background and experience would be a benefit to the Company and its business.
- All candidates recommended to the Nominating Committee must meet the independence standards of the NYSE American and the definition of "independent director" in the Company's By-Laws.

COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors (the “Committee”) is comprised of three independent directors and operates under a written charter, adopted on February 20, 2009. A copy of the charter is available on the Company’s website, www.espey.com, under the tab “Investors”.

The objectives of the compensation program are designed to align performance with the interests of shareholders, reward performance, retain and recruit qualified and effective talent.

The Committee will consult with senior management to establish, review and evaluate the long-term strategy of executive compensation and the types of stock and other compensation plans utilized by the Company. The Committee will also assist the Board in the establishment of annual goals and objectives for the Company’s Chief Executive Officer, as well as consulting with the Chief Executive Officer to establish goals and objectives for other members of senior management. The Committee will assist the Board in establishing plans for executive officer development. The Committee has not engaged a compensation consultant in connection with the discharge of its responsibilities.

The Committee is responsible for recommending to the Board all grants and awards under the Corporation’s stock option plans and other equity-based plans. It is not intended that the authority of the Board to make grants under the 2017 Stock Option and Restricted Stock Plan be delegated to the Committee, but rather that the Committee serve in an advisory capacity. The Committee will also consult with the Chief Executive Officer for senior management grants and awards. The Board has authorized the Chief Executive Officer to grant up to 2,000 stock options, without further approval, incidental to the hiring of new senior level employees.

The Committee will review compensation paid to non-employee directors and make recommendations to the Board for any adjustments.

The Committee will review and approve, in consultation with the Chief Executive Officer, any severance or similar termination payments proposed to be made to any current or former executive officer of the Corporation (other than the current Chief Executive Officer), and review and recommend to the Board any severance or similar termination payments proposed to be made to the current Chief Executive Officer.

SHAREHOLDER COMMUNICATIONS WITH THE BOARD

Mail can be addressed to Directors in care of the Office of the Secretary, Espey Mfg. & Electronics Corp., 233 Ballston Avenue, Saratoga Springs, New York 12866. At the direction of the Board of Directors, all mail received will be opened and screened for security purposes. The mail will then be logged in. All mail, other than trivial or obscene items, will be forwarded. Trivial items will be delivered to the Directors at the next scheduled Board meeting. Mail addressed to a particular Director will be forwarded or delivered to that Director. Mail addressed to “Outside Directors” or “Non-Management Directors” will be forwarded or delivered to the Chairman of the Audit Committee. Mail addressed to the “Board of Directors” will be forwarded or delivered to the Chairman of the Board.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information regarding ownership of the Company’s outstanding Common Stock as of October 12, 2018, by each person or group who is known to the Company to be the beneficial owner of more than five percent of the outstanding shares of Common Stock:

| Title | Name and Address of | Amount and | Nature of | Percent |
|---------------------|--------------------------------|--------------------------|----------------------------|----------------|
| <u>Class</u> | <u>Beneficial Owner</u> | <u>Beneficial</u> | <u>Ownership of</u> | |
| | | <u>Class</u> | | |
| Common Stock | | | | 5.8% |

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Renaissance Technologies LLC; 139,900 - Direct
Renaissance Technologies Holding (1)
Corporation

Stanley Kesselman

c/o Maxim Group 236,341 - Direct 9.9%
405 Lexington Ave., 2nd Floor (2)

New York, NY 10174

The information is from Schedule 13G dated February 13, 2018 filed with the SEC by Renaissance Technologies LLC (“LLC”) and Renaissance Technologies Holding Corporation (“Holding”). Because of Holding’s majority ownership of LLC, each of LLC and Holding reports sole voting power over 130,666 shares, sole dispositive power over 131,266 shares and shared dispositive power over 8,634 shares.

(2) The information is from Schedule 13G/A dated January 11, 2018 filed with the SEC by Mr. Kesselman.
SECURITY OWNERSHIP OF MANAGEMENT

The following information is furnished as of October 12, 2018, as to each class of equity securities of the Company beneficially owned by all Directors and Executive Officers and by Directors and Executive Officers of the Company as a Group:

| <u>Title Class</u> | <u>Name of Beneficial Owner</u> | <u>Amount and Nature of Beneficial Ownership</u> | <u>Percent of Class</u> |
|--------------------|---|--|-------------------------|
| Common Stock | Paul J. Corr | 32,439- Direct (1) | 1.3% |
| Common Stock | Patrick T. Enright, Jr. | 21,000- Direct (1) 1,788- Indirect (2) | * |
| Common Stock | Carl Helmetag | 29,569- Direct (1) 1,504 Indirect (3) | 1.3% |
| Common Stock | Peggy Murphy | 10,200- Direct (1) 11,464- Indirect (2) | * |
| Common Stock | David A. O’Neil | 22,250 - Direct (1) 14,768 - Indirect (2) | 1.5% |
| Common Stock | Barry Pinsley | 63,862 - Direct (1) | 2.7% |
| Common Stock | Howard Pinsley | 82,613 - Direct (1) 24,404 - Indirect (2) | 4.5% |
| Common Stock | Alvin O. Sabo | 17,500 - Direct (1) 11,959 Indirect (3) | 1.2% |
| Common Stock | Roger N. Sexauer II | 1,000 - Direct | * |
| Common Stock | Katrina Sparano | 9,595 - Direct (1) 4,966 Indirect (2) | * |
| Common Stock | Michael Wool | 23,500 - Direct (1) | * |
| | Officers and Directors as a Group (11 persons) | 313,528 - Direct (1) 70,853 – Indirect (2), (3) | 15.3% |

* Less than one percent

- 16
- 1) Direct shares include options to acquire shares, which are exercisable within 60 days as follows:

| Name of Beneficial Owner | Exercisable Options | Name of Beneficial Owner | Exercisable Options |
|--------------------------|---------------------|--------------------------|---------------------|
| Paul J. Corr | 12,000 | Howard Pinsley | 8,000 |
| Patrick T. Enright, Jr. | 18,000 | Alvin O. Sabo | 11,200 |
| Carl Helmetag | 11,000 | Roger N. Sexauer II | 0 |
| Peggy Murphy | 9,600 | Katrina Sparano | 9,250 |
| David A. O'Neil | 12,250 | Michael Wool | 8,500 |
| Barry Pinsley | 11,000 | | |

Includes shares allocated to the named officer as of June 30, 2018, as a participant in the Company's ESOP and may reflect dispositions that have occurred since the date of the person's last ownership report on Form 4. Each such person has the right to direct the manner in which such shares allocated to him or her are to be voted by the ESOP Trustee.

In the case of Mr. Helmetag, represents 1,504 shares held in an IRA account. In the case of Mr. Sabo, includes 10,649 shares held in an IRA account, and includes 1,310 shares owned by Mr. Sabo's wife, as to which Mr. Sabo disclaims beneficial ownership.

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

CODE OF ETHICS

The Company had adopted a Code of Ethics which is available on the Company's website at www.espey.com under the tab "Investors."

PROPOSAL NO. 4

RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Audit Committee has selected Freed Maxick CPAs, P.C. ("Freed Maxick") as the Company's independent public accountants for the fiscal year ending June 30, 2019.

Unless otherwise specified by the shareholders, the shares represented by their properly executed proxies will be voted for ratification of the appointment of Freed Maxick as independent accountants for the fiscal year ending June 30, 2019. The Company is advised by said firm that neither the firm nor any of its members now has, or during the past three years had, any direct financial interest or material indirect financial interest or any connection with the Company.

A representative of Freed Maxick is expected to be present at the Annual Meeting with the opportunity to make a statement if he or she desires to do so and to be available to respond to appropriate questions from the shareholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF FREED MAXICK CPAS P.C. AS INDEPENDENT PUBLIC ACCOUNTANTS FOR THE COMPANY FOR THE FISCAL YEAR ENDING JUNE 30, 2019.

The fees billed or expected to be billed for professional services by Freed Maxick for the fiscal years ended June 30, 2018 and June 30, 2017 were:

| <u>TYPE OF FEES</u> | <u>2018</u> | <u>2017</u> |
|----------------------------|--------------------|--------------------|
| (1) Audit Fees | \$92,000 | \$85,500 |
| (2) Audit Related Fees | \$8,000 | \$7,500 |
| (3) Tax Fees | \$10,500 | \$10,250 |
| (4) All Other Fees | <u>None</u> | <u>None</u> |
| Total | <u>\$ 110,500</u> | <u>\$103,250</u> |

In the above table, in accordance with the Securities and Exchange Commission's definitions and rules, "audit fees" are fees for professional services rendered by the principal accountant for the audit of the Company's annual financial statements included in Form 10-K and review of financial statements included in Form 10-Qs, and for services that are normally provided by the principal accountant in connection with statutory and regulatory filings or engagements; "audit-related fees" are fees for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the Company's financial statements; "tax fees" are fees for tax compliance, tax advice and tax planning rendered by the principal accountant. 100% of the services set forth in sections (1) through (3) above were approved by the Audit Committee in accordance with its charter.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and persons who own more than ten percent of a registered class or the Company's equity securities, to file reports of beneficial ownership and changes in beneficial ownership with the Securities and Exchange Commission. Based solely upon its review of copies of such reports received by it, or upon written representations obtained from certain reporting persons, the Company believes that its officers, directors, and stockholders who own more than ten percent of the Company's equity securities complied with all Section 16(a) filing requirements for the fiscal year ended June 30, 2018.

ANNUAL REPORTS

The Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018, including financial statements as filed with the Securities and Exchange Commission accompanies this Proxy Statement. Such financial statements are not incorporated herein by reference.

A copy of the Company's Annual Report on Form 10-K (including financial statements and schedules thereto) for the fiscal year ended June 30, 2018, filed with the Securities and Exchange Commission will be provided without charge upon the written request of shareholders to Espey Mfg. & Electronics Corp., Attention: Investor Relations, 233 Ballston Avenue, Saratoga Springs, New York 12866. The Company's Form 10-K for the fiscal year ended June 30, 2018 can also be viewed electronically through a link at the Company's website at www.espey.com.

SHAREHOLDER PROPOSALS

Any shareholder proposal which may be a proper subject for inclusion in the proxy statement and for consideration at the 2019 Annual Meeting must be received by the Company at its Principal Executive Office no later than June 28, 2019, if it is to be included in the Company's 2019 proxy statement and proxy form. In addition, the Company's By-Laws outline procedures that a shareholder must follow to nominate directors or to bring other business before an Annual Meeting of Shareholders. Except as required under the Business Corporation Law of New York, shareholder proposals will not be considered at special meetings.

PROXY SOLICITATION

The solicitation of the enclosed proxy is being made on behalf of the Board of Directors and the cost of preparing and mailing the Notice of Meeting, Proxy Statement and form of proxy to shareholders is to be borne by the Company.

By Order of the Board of Directors,
Patrick T. Enright Jr.
President and Chief Executive Officer
October 26, 2018

Saratoga Springs, New York

19

. **IMPORTANT ANNUAL MEETING INFORMATION** Using a black inkpen, mark your votes with an X as shown in this example. Please do not write outside the designated areas. X Annual Meeting Proxy Card A Proposals — The Board of Directors recommends a vote FOR all the nominees listed in Proposals 1, 2 and 3 and FOR Proposal 4. 1. TO ELECT: three Class A Directors Carl Helmetag, Howard Pinsley and Alvin O. Sabo to serve for a three year term expiring at the 2021 annual meeting or until their respective successors are duly elected and qualify. + For Withhold For Withhold For Withhold 01 - Carl Helmetag 02 - Howard Pinsley 03 - Alvin O. Sabo For Withhold For Withhold 2. TO ELECT: one Class B Director Roger N. Sexauer II to serve 3. TO ELECT: one Class C Director David A. O'Neil for the remaining one year term expiring at the 2019 annual remaining two year term expiring at the 2020 annual meeting or until his successor is duly elected and qualifies. meeting or until his successor is duly elected and qualifies. For Against Abstain 4. TO RATIFY the appointment of Freed Maxick CPAs, P.C. as the independent public accountants of the Company for fiscal year ending June 30, 2019. B Non-Voting Items Change of Address — Please print new address below. C Authorized Signatures — This section must be completed for your vote to be counted. — Date and Sign Below Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title. Date (mm/dd/yyyy) — Please print date below. Signature 1 — Please keep signature within the box. Signature 2 — Please keep signature within the box. 1UPX + 02XHHB

. IMPORTANT ANNUAL MEETING INFORMATION IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON DECEMBER 7, 2018. THE PROXY STATEMENT AND THE ANNUAL REPORT ARE AVAILABLE AT: www.edocumentview.com Proxy — ESPEY MFG. & ELECTRONICS CORP. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS PROXY FOR THE 2018 ANNUAL MEETING OF SHAREHOLDERS December 7, 2018 The undersigned hereby appoints Paul Corr and Michael Wool as Proxies, each with the power to appoint his substitute, and hereby authorizes them or any one of them to represent and to vote, as designated below, all the shares of common stock of ESPEY MFG. & ELECTRONICS CORP. which the undersigned would be entitled to vote if personally present at the 2018 Annual Meeting of Shareholders to be held on December 7, 2018 or any adjournment thereof. THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE ABOVE SIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSALS 1, 2, 3 AND 4. Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporation name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person. PLEASE COMPLETE, DATE, SIGN, AND MAIL THIS PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE