

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended September 30, 1999

OR

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

For the transition period _____ to _____

Commission file number: 1-10596

ESCO Electronics Corporation

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

[Walter Stark, Sr. VP, Sec., Gen.
Washington, DC 20549
Counsel. (Sep. 30, 1999). Form
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Missouri
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

43-1554045
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

8888 Ladue Road, Ste. 200
St. Louis, Missouri
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

63124-2090
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:

(314) 213-7200

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class -----	Name of Each Exchange on Which Registered -----
Common Stock Trust Receipts	New York Stock Exchange, Inc.
Common Stock, par value \$0.01 per share	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

(Cover page 1 of 2 pages)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes X No

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

Aggregate market value of the Common Stock Trust Receipts held by non-affiliates of the registrant as of close of business on December 20, 1999: \$134,021,591*

* For purpose of this calculation only, without determining whether the following are affiliates of the registrant, the registrant has assumed that (i) its directors and executive officers are affiliates, and (ii) no party who has filed a Schedule 13D or 13G is an affiliate.

Number of Common Stock Trust Receipts outstanding at December 20, 1999:
12,437,814 Receipts.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 1999 (the "1999 Annual Report") (Parts I and II).
2. Portions of the registrant's Proxy Statement dated December 9, 1999 (Part III).

(Cover page 2 of 2 pages)

ESCO ELECTRONICS CORPORATION
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PART I

ITEM 1. BUSINESS

THE COMPANY

ESCO Electronics Corporation ("ESCO") is a producer of products and systems for industrial and commercial applications sold to customers world-wide. ESCO's operating subsidiaries are: PTI Technologies Inc., PTI Advanced Filtration Inc., PTI Technologies Limited, Filtertek Inc. ("Filtertek"), Filtertek BV, Filtertek de Puerto Rico, Inc., Filtertek Do Brazil, Filtertek SA, VACCO Industries ("VACCO"), EMC Test Systems, L.P. ("ETS"), Euroshield OY, Distribution Control Systems, Inc. ("DCSI"), Rantec Microwave & Electronics, Inc. ("Rantec"), and Comtrak Technologies, L.L.C. ("Comtrak"). These operating subsidiaries are engaged primarily in the research, development, manufacture, sale and support of the above-mentioned products and systems, and are subsidiaries of Defense Holding Corp., a wholly-owned direct subsidiary of ESCO. ESCO and its direct and indirect subsidiaries are hereinafter referred to collectively as the "Company". The Company's businesses are subject to a number of risks and uncertainties, including without limitation those discussed below. See Item 3. "Legal Proceedings" in this report and "Management's Discussion and Analysis" appearing in the 1999 Annual Report.

PRODUCTS

The Company operates in four principal industry segments:

Filtration/Fluid Flow, Test, Communications and Other Products. See Note 11 of the Notes to Consolidated Financial Statements in the 1999 Annual Report, which Note is herein incorporated by reference.

FILTRATION/FLUID FLOW

The Company's Filtration/Fluid Flow segment accounted for approximately 70 % of Company revenues in fiscal year 1999 (excluding revenues from Systems & Electronics Inc. ("SEI"), which was divested on September 30, 1999).

PTI Technologies Inc., PTI Advanced Filtration Inc. and PTI Technologies Limited develop and manufacture a wide range of filtration products. PTI Technologies Inc. is a leading supplier of filters to the commercial aerospace market. Its major industrial business is derived from microfiltration products that are used in a variety of markets and applications. The filtration membranes for many of these applications are, or will be, produced by PTI Advanced Filtration Inc., which also supplies filtration systems for use in the dairy industry and industrial coatings. The industrial business also includes the supply of filtration products for process and mobile fluid power applications. PTI Technologies Limited manufactures and distributes filter products primarily in the European industrial marketplace. In fiscal year 1998, PTI Technologies Inc. formed a joint venture in India, known as "SANMAR-PTI Filters Limited", with SANMAR Engineering Corporation to manufacture and sell filtration products for the Indian and other international markets. VACCO and PTI Technologies Inc. jointly develop and manufacture industrial filtration elements and systems primarily used within the petrochemical and nuclear industries, where a premium is placed on superior performance in a harsh environment. VACCO supplies filters, latch valves and check valves to the aerospace industry, primarily for use in satellite propulsion systems. VACCO also uses its etched disk technology to produce quiet valves and manifolds for U.S. Navy applications.

Filtertek develops and manufactures a broad range of high-volume, original equipment manufacturer ("OEM") filtration products at its facilities in North America, South America and Europe. Filtertek's products, which are centered around its insert injection-molding technology wherein a filter medium is inserted into the tooling prior to injection-molding of the filter housing, have widespread applications in the medical and health care markets, automotive fluid systems, and other commercial and industrial markets. A typical application can require daily production of many thousands of units, at very high levels of quality, that are generally

produced in highly-automated manufacturing cells. Many of Filtrertek's products are patented or incorporate proprietary product or process design, or both. Filtrertek's products are typically supplied to OEM customers under long term contracts. In fiscal year 1999, Filtrertek introduced a number of new products including several automotive transmission sump filters, medical flow control devices and intravenous (IV) filters, and fuel filters for fuel pump applications. Development of a number of new products with applications in water filtration, Leukocyte blood filtration and depth media fuel filtration was completed in fiscal year 1999, and these products are expected to provide revenue growth in fiscal year 2000 and beyond.

TEST

The Company's Test segment accounted for approximately 14% of Company revenues in fiscal year 1999 (excluding SEI revenues).

ETS designs and manufactures electromagnetic compatibility ("EMC") test equipment. It also supplies controlled radio frequency testing environments (anechoic chambers), shielded rooms for high security data processing and secure communication, and electromagnetic absorption materials. ETS's products include antennas, antenna masts, turntables, current probes, field probes, TEM (transverse electromagnetic) cells, GTEM (gigahertz transverse electromagnetic) cells, microwave absorber, calibration equipment and other test accessories required to do EMC testing. ETS also provides all the design, program management and integration services required to supply customers with turnkey EMC solutions. In fiscal year 1999, ETS was awarded a contract by General Motors, valued at more than \$20 million, to design and equip an EMC test facility. It is expected that in fiscal years 2000 and 2001 revenues from this contract will constitute approximately 20% to 25% of total revenues of the Test segment. This project is expected to be completed in 2002. Euroshield OY designs and manufactures a broad range of modular shielding systems and shielded doors, some of which are proprietary, for the world market. It also provides the design, program management and integration services to supply the European market with turnkey EMC solutions.

COMMUNICATIONS

In fiscal year 1999, approximately 10% of Company revenues (excluding SEI revenues) was derived from its Communications segment.

DCSI is a leading manufacturer of two-way power line communication systems for the utility industry. These systems provide electric utilities with a patented communication technology for demand-side management, distribution automation, and automatic meter reading capabilities, thus improving the efficiency of power delivery to the consumer of electric energy. During fiscal year 1999, DCSI experienced substantial revenue growth from the first full year of shipments of an automatic meter reading ("AMR") system to the Puerto Rico Electric Power Authority ("PREPA") under a multi-year contract signed in fiscal year 1998 which is valued at more than \$50 million. Revenue from this contract amounted to approximately 56% of total Communications segment revenues in fiscal year 1999. It is anticipated that in fiscal year 2000 the PREPA contract revenue will constitute approximately 50% to 55% of total segment revenues. The current contract will expire in fiscal year 2001. Also during 1999, DCSI was chosen to supply the first phase of an AMR project to Wisconsin Public Service Co. ("WPS") which covers roughly seventeen percent of WPS' customer base. DCSI anticipates possible expansion of this system in fiscal years 2001-2003.

OTHER PRODUCTS

The Company's Other Products segment represented approximately six percent of Company revenues in fiscal year 1999 (excluding SEI revenues).

Rantec designs and manufactures high voltage and low voltage power supplies, dc/dc converters and

power systems which are marketed to a broad range of customers worldwide. Applications include medical and avionics CRT displays, as well as ground-based, shipboard and airborne power systems for a wide variety of military platforms. Rantec's newest development is a state-of-the-art, patented, miniature high voltage technology which achieves the same basic functions of today's high voltage power supplies in only 5% of the size. These products can meet a broad range of display applications, from hand-held devices and notebook computers to helmet-mounted displays and military avionics.

Comtrak has developed a proprietary video security monitoring system, which has applications in commercial and industrial security systems. Currently, Comtrak is working jointly with ADT Security Services, Inc., who is selling this system under its SecurVision7 trademark to a variety of markets.

As previously disclosed, the Company intends to sell its Rantec microwave antenna business, including its owned operations facility located in Calabasas, California. This business includes the production of antennas for wireless communications applications and airborne systems.

DIVESTED BUSINESS

On September 30, 1999, ESCO sold SEI, its last major defense business, to Engineered Systems and Electronics, Inc. ("Engineered Systems"). See Notes 2 and 11 of the Notes to Consolidated Financial Statements in the 1999 Annual Report, which Notes are herein incorporated by reference. SEI is primarily in the defense systems and electronics business, and principally supplies high-capacity aircraft cargo loaders and transportation systems and weapon subsystems to the armed forces. In addition, SEI designs and manufactures launching and guidance systems and airborne radar systems. In fiscal year 1999, SEI accounted for approximately 42% of total Company revenues. As a result of the sale of SEI, the Company's defense-related sales have been reduced to approximately ten percent of total sales.

MARKETING AND SALES

The following comments relate to the Company's business in general:

The Company's products generally are distributed to customers through a domestic and foreign network of distributors, sales representatives and factory salespersons. Utility communication systems are sold directly to the electric utilities.

The Company's defense products are sold directly or indirectly to the U.S. Government under contracts with the Army, Navy and Air Force and subcontracts with prime contractors of such entities. Including SEI results, direct and indirect sales to the U.S. Government accounted for approximately 41%, 41% and 44% of the Company's total sales in the fiscal years ended September 30, 1999, 1998 and 1997, respectively. See Note 11 of the Notes to Consolidated Financial Statements in the 1999 Annual Report, which Note is herein incorporated by reference.

International sales (including SEI) accounted for approximately 18%, 16% and 18% of the Company's total sales in the fiscal years ended September 30, 1999, 1998 and 1997, respectively. The increase in fiscal year 1999 was primarily due to higher Far East sales at SEI. See Note 11 of the Notes to Consolidated Financial Statements in the 1999 Annual Report. Historically, the majority of these international sales have involved defense products. With the divestiture of SEI, future international sales will predominantly involve industrial and commercial products.

The Company's international sales are subject to risks inherent in foreign commerce, including currency fluctuations and devaluations, the risk of war, changes in foreign governments and their policies, differences in foreign laws, uncertainties as to enforcement of contract rights, and difficulties in negotiating and litigating with foreign sovereigns.

INTELLECTUAL PROPERTY

The Company owns or has other rights in various forms of intellectual property (i.e., patents, trademarks, service marks, copyrights, mask works, trade secrets and other items). As the Company has expanded its presence in commercial markets, it is placing greater emphasis on developing intellectual property and protecting its rights therein. The Company believes that this increased emphasis should better position the Company to secure new business and protect existing business for certain products. Although the Company considers its patents to be of significant value in its operations, none of its business segments is materially dependent on any single patent or group of patents.

BACKLOG

The following information excludes backlog attributable to SEI. The backlog of firm orders was approximately \$142.9 million at September 30, 1999 and approximately \$139.3 million at September 30, 1998. As of September 30, 1999, it is estimated that: (i) commercial business accounted for approximately 90% of the firm orders and defense business accounted for approximately 10%, and (ii) domestic customers accounted for approximately 79% of the firm orders and foreign customers accounted for approximately 21%. Of the total backlog of orders at September 30, 1999, approximately 73% (including all commercial orders) is expected to be completed in the fiscal year ending September 30, 2000.

PURCHASED COMPONENTS AND RAW MATERIALS

The Company's products require a wide variety of components and materials. Although the Company has multiple sources of supply for most of its material requirements, certain components are supplied by sole-source vendors, and the Company's ability to perform certain contracts depends on their performance. In the past, these required raw materials and various purchased components generally have been available in sufficient quantities. In the Communications segment, DCSI utilizes a single source or a limited number of sources to produce substantially all of DCSI's end-products. Although the Company believes alternative suppliers of components and end-products are available, the inability of DCSI to develop alternative sources quickly or cost-effectively could have a material adverse effect on the Communications segment.

COMPETITION

The following comments apply to each of the Company's four segments:

The Company faces intense competition from a large number of firms for nearly all of its products. Although the Company is a leading supplier in several of the markets it serves, the Company maintains a relatively small share of the business in many of the markets in which it participates. Because of the specialized nature of the Company's products, it is impossible to state precisely its competitive position with respect to each of its products. Substantial efforts are required in order to maintain existing business levels. In the Company's major served markets, competition is driven primarily by quality, price, technology and delivery performance. For most of its products, the Company's competitors are larger and have greater financial resources than the Company.

Competition in the Company's major markets is broadly based, and global in scope. Individual competitors range in size from annual revenues of less than \$1 million to billion dollar enterprises, such as Pall Corporation, a major competitor in the filtration/fluid flow market. Competition can be particularly intense during periods of economic slowdown, a situation which the Company recently experienced in some of its filtration/fluid flow markets.

RESEARCH AND DEVELOPMENT

Research and development and the Company's technological expertise are important factors in the Company's business. Research and development programs are designed to develop technology for new products or to extend or upgrade the capability of existing products and to assess their commercial potential.

In addition to its work under development contracts, the Company performs research and development at its own expense. For the fiscal years ended September 30, 1999, 1998 and 1997, total Company-sponsored research and development expenses were approximately \$7.7 million, \$5.9 million and \$6.2 million, respectively. Company-sponsored research and development expenses attributable to SEI were approximately \$1.5 million, \$1.4 million and \$1.1 million, respectively, for those years. Total customer-sponsored research and development expenses were approximately \$8.3 million, \$10.2 million and \$6.3 million for the fiscal years ended September 30, 1999, 1998 and 1997, respectively. Such customer-sponsored expenses attributable to SEI were approximately zero, zero and \$0.1 million, respectively, for those years. The decrease in fiscal year 1999 for customer-sponsored research and development expenses was due to decreased activity at Rantec, partially offset by an increase at Filtertek. The increase in fiscal year 1998 for such research and development expenses was due to increased activity at Rantec and Filtertek.

ENVIRONMENTAL MATTERS

The Company is involved in various stages of investigation and cleanup relating to environmental matters. These matters primarily relate to Company facilities located in Newbury Park, California and Riverhead, New York. Textron, Inc. has indemnified the Company in respect of the cleanup expenses at the Newbury Park facility, which is leased from a third party. In connection with the sale of Hazeltine Corporation ("Hazeltine") in 1996, the Company retained ownership of the Riverhead facility, and agreed to indemnify Hazeltine and GEC-Marconi against certain environmental remediation expenses related to Hazeltine's facility at Quincy, Massachusetts. The Company recently sold the Riverhead facility, but has retained responsibility for any remaining contamination issues. The relevant state agency has recently agreed that remediation at the Riverhead facility may cease. The Company is also indirectly involved in the remediation of off-site waste disposal facilities located in Winter Park, Florida and Jackson County, Arkansas, with regard to both of which the Company is one of a number of potentially responsible parties, and thus bears a proportionate share of the total remediation expenses. It is very difficult to estimate the potential costs of such matters and the possible impact of these costs on the Company at this time due in part to: the uncertainty regarding the extent of pollution; the complexity of Government laws and regulations and their interpretations; the varying costs and effectiveness of alternative cleanup technologies and methods; the uncertain level of insurance or other types of cost recovery; and in the case of off-site waste disposal facilities, the uncertain level of the Company's relative involvement and the possibility of joint and several liability with other contributors under applicable law. Based on information currently available, the Company does not believe that the aggregate costs involved in the resolution of these environmental matters will have a material adverse effect on the Company's financial statements. See Item 3. "Legal Proceedings".

GOVERNMENT CONTRACTS

A portion of the Company's contracts with the U.S. Government and subcontracts with prime contractors of the U.S. Government are firm fixed-price contracts. Under firm fixed-price contracts, work is performed and paid for at a fixed amount without adjustment for the actual costs experienced in connection with the contracts. Therefore, unless the customer actually or constructively alters or impedes the work performed, all risk of loss due to cost overruns is borne by the Company. All Government prime contracts and virtually all of the Company's subcontracts provide that they may be terminated at the convenience of the Government. Upon such termination, the Company is normally entitled to receive the purchase price for delivered items, reimbursement for allowable costs incurred and allocable to the contract (which do not include many ordinary costs of doing business in a commercial context) and an allowance for profit on the allowable costs incurred or adjustment for loss if completion of performance would have resulted in a loss. The Company is also

normally entitled to reimbursement of the cost it incurs to prepare and to negotiate a settlement of the termination for convenience.

The Company's backlog includes firm fixed-price U.S. Government contracts, development programs and production programs in their early phases. These programs have inherently high risks associated with design, first article testing and customer acceptance. The profitability of such programs cannot be assured, and they could represent exposure to the Company.

The Company periodically reviews U.S. Government contracts in the ordinary course to ascertain if customer actions or inactions have caused or will cause increased costs. In the past, the Company has submitted requests for equitable adjustments ("REAs") and claims seeking additional compensation, which involved substantial amounts of money. Currently, the Company has no such REAs or claims outstanding. However, in the future, to the extent any such REAs and claims are finally resolved for less than the amounts anticipated, the Company's financial position and operating results could be adversely affected.

EMPLOYEES

As of October 31, 1999, the Company employed approximately 2,000 persons.

FINANCING

The Company has a credit agreement, which has been amended and restated as of February 7, 1997, and further amended as of May 6, 1997, November 21, 1997, June 29, 1998 and August 30, 1999, for a \$40 million revolving credit facility (together the "Credit Facility") with a group of banks agented by Morgan Guaranty Trust Company of New York. The Credit Facility will mature and expire on September 30, 2000, and contains customary events of default, including change in control of the Company. Substantially all of the assets of the Company are pledged under the credit facility. See "Management's Discussion and Analysis - Capital Resources & Liquidity" in the 1999 Annual Report, and Note 7 of the Notes to Consolidated Financial Statements in the 1999 Annual Report, which Note is herein incorporated by reference.

HISTORY OF THE BUSINESS

ESCO was incorporated in Missouri in August 1990 as a wholly-owned subsidiary of Emerson Electric Co. ("Emerson") to be the indirect holding company for Electronics & Space Corp. ("E&S"), Hazeltine, Southwest Mobile Systems Corporation ("Southwest"), Rantec, VACCO and DCSI, which were then Emerson subsidiaries. Ownership of ESCO and its subsidiaries was distributed on October 19, 1990 (the "Distribution Date") by Emerson to its shareholders through a special distribution (the "Distribution"). By means of the Distribution, Emerson distributed one share of ESCO's common stock, par value \$0.01 per share (the "Common Stock"), for every 20 shares of Emerson common stock owned on October 5, 1990. Pursuant to a Deposit and Trust Agreement (the "Deposit and Trust Agreement") by and among Emerson, ESCO and Boatmen's Trust Company, as voting trustee, in lieu of receiving a share of Common Stock on the Distribution Date, each Emerson shareholder received a Common Stock trust receipt (a "Receipt") representing the Common Stock and its associated preferred stock purchase rights.

In connection with the Distribution, Emerson, ESCO and ESCO's subsidiaries entered into various agreements which dealt with, among other things, Emerson's guarantee of certain contracts of ESCO's subsidiaries existing at September 30, 1990. The Deposit and Trust Agreement provided that, if ESCO should default in its obligations to indemnify Emerson with respect to the aforesaid contract guarantee obligations of Emerson, Emerson would have the right to direct the voting of the ESCO Common Stock represented by the Receipts with respect to the election of directors. On November 10, 1999, Emerson gave notice that its contract guarantee obligations have been discharged, and the Deposit and Trust Agreement is being terminated. On or about January 17, 2000, ESCO shareholders will receive shares of Common Stock in

exchange for their Receipts. See Notes 8 and 12 of the Notes to Consolidated Financial Statements in the 1999 Annual Report.

Effective September 30, 1993, ESCO's Board of Directors authorized an accounting readjustment of the Company's balance sheet in accordance with the accounting provisions applicable to a "quasi-reorganization," an elective accounting procedure intended to restate assets and liabilities to fair values and to eliminate any accumulated deficit in retained earnings. See Note 1(b) of the Notes to Consolidated Financial Statements in the 1999 Annual Report, which Note is herein incorporated by reference.

On September 30, 1992, ESCO acquired ownership of Textron Filtration Systems, Inc. from Textron, Inc. and renamed the entity "PTI Technologies Inc." On March 12, 1993, ESCO acquired The Electro-Mechanics Company, a privately held company, from its shareholders. On December 1, 1993, ESCO acquired all outstanding stock of Schumacher Filters Limited (located in England) from Kraftanlagen, AG of Germany, and renamed this entity "PTI Technologies Limited". On December 29, 1994, ESCO acquired the assets of Ray Proof North America, a division of Shielding Systems Corporation, a subsidiary of Bairnco Corporation.

Effective September 30, 1995, E&S was merged into Southwest. Subsequently, the latter entity's name was changed to Systems & Electronics Inc.

Effective October 19, 1995, the assets of EMCO, the assets acquired from Ray Proof North America, and the assets comprising Rantec's California and Oklahoma radio/frequency anechoic business were transferred to a newly-formed Texas limited partnership, EMC Test Systems, L.P. ("ETS"). The sole general partner of ETS is Rantec Commercial, Inc., a wholly-owned subsidiary of Rantec. The sole limited partner of ETS is Rantec Holdings, Inc., a wholly-owned subsidiary of Defense Holding Corp.

On July 22, 1996, ESCO sold 100% of the capital stock of Hazeltine to GEC-Marconi Electronic Systems Corporation ("GEC-Marconi"). On February 7, 1997, ESCO acquired the filtration products and the thermoform packaging businesses ("Filtertek") of Schawk, Inc. On December 31, 1997, ESCO acquired the stock of Euroshield OY (located in Finland), and on July 1, 1998, ESCO acquired the stock of Advanced Membrane Technology, Inc. and renamed it "PTI Advanced Filtration Inc." See Note 2 of the Notes to Consolidated Financial Statements in the 1999 Annual Report.

On September 30, 1999, ESCO sold 100% of the capital stock of SEI to Engineered Systems.

FORWARD-LOOKING INFORMATION

The statements contained in this Item 1. "Business" and in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" concerning the Company's future revenues, profitability, financial resources, utilization of net deferred tax assets, costs of Year 2000 compliance, product mix, production and deliveries, market demand, product development, competitive position, impact of environmental matters and statements containing phrases such as "believes", "anticipates", "may", "could", "should", and "is expected to" are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to: changing economic conditions in served markets; delivery delays or defaults by customers; performance issues with key suppliers and subcontractors; and the Company's successful execution of internal operating plans.

ITEM 2. PROPERTIES

The Company's principal buildings contain approximately 1,133,900 square feet of floor space. Approximately 778,600 square feet are owned by the Company and approximately 355,300 square feet are

leased. Substantially all of the Company's owned properties are encumbered in connection with the Company's Credit Facility. See Item 1. "Business - Financing" and Note 7 of the Notes to Consolidated Financial Statements in the 1999 Annual Report. The principal plants and offices are as follows:

LOCATION -----	SIZE (SQ. FT.) -----	SQ. FT. OWNED/ LEASED -----	LEASE EXPIRATION DATE -----	PRINCIPAL USE (INDUSTRY SEGMENT) -----
Huntley, IL	127,000	Owned		Manufacturing (Filtration/Fluid Flow)
Patillas, PR	110,000	Owned		Manufacturing (Filtration/Fluid Flow)
Durant, OK	100,000	Owned		Manufacturing (Test)
Hebron, IL	99,800	Owned		Management, Engineering and Manufacturing (Filtration/Fluid Flow)
South El Monte, CA	80,800	Owned		Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Newbury Park, CA	79,000	Leased	12-31-00	Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Calabasas, CA	54,700	Owned		Management, Engineering and Manufacturing (Other Products)
Stockton, CA	55,000	Leased	5-21-03 (w/two 5-year renewal options)	Manufacturing (Filtration/Fluid Flow)
Austin, TX	50,000	Leased	1-20-02 (w/one 5-year renewal option)	Management, Engineering and Manufacturing (Test)
Newbury Park, CA	46,100	Leased	10-31-01 (w/two 5-year renewal options)	Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Los Osos, CA	40,000	Owned		Engineering and Manufacturing (Other Products)
San Diego, CA	38,000	Leased	2-29-00	Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Newcastle West, Ireland	37,000	Owned		Manufacturing (Filtration/Fluid Flow)
St. Louis, MO	35,000	Owned		Management, Engineering and Manufacturing (Communications)

Juarez, Mexico	34,400	Leased	12-31-01	Engineering and Manufacturing (Filtration/Fluid Flow)
Sheffield, England	33,500	Owned		Management, Manufacturing and Distributor (Filtration/Fluid Flow)
Plailly, France	33,000	Owned		Manufacturing (Filtration/Fluid Flow)
Sao Paulo, Brazil	31,000	Leased	12-14-02	Manufacturing (Filtration/Fluid Flow)
Eura, Finland	27,800	Owned		Management, Engineering and Manufacturing (Test)
St. Louis, MO	21,800	Leased	8-31-05 (w/two 5-year renewal options)	ESCO Headquarters

In fiscal year 1999, the Company entered into a financing lease arrangement covering (i) a property in Oxnard, California consisting of a 126,000 square feet building, and (ii) a second property in Oxnard, California upon which a 127,000 square feet building will be constructed. All of the Company's current Newbury Park and San Diego facilities will be transferred in fiscal year 2000 to these new Oxnard properties, which will then comprise the management, engineering and manufacturing operations for PTI Technologies Inc. and PTI Advanced Filtration Inc. (Filtration/Fluid Flow segment).

The Company believes its buildings, machinery and equipment have been generally well maintained, are in good operating condition and are adequate for the Company's current production requirements.

ITEM 3. LEGAL PROCEEDINGS

In August 1994, a class action lawsuit was filed by Ronald and Angela Aprea and other persons against Hazeltine in the Supreme Court of the State of New York, Suffolk County, alleging personal injury and property damage caused by Hazeltine's purported releases of hazardous materials at Hazeltine's facility at Greenlawn, New York. In connection with the sale of Hazeltine, the Company indemnified Hazeltine and GEC-Marconi against expenses and potential liability related to this suit. The suit seeks compensatory and punitive damages, and an order enjoining Hazeltine from discharging further hazardous materials and for Hazeltine to remediate all damage to the property of the plaintiffs. The Company believes that no one and no property has been injured by any release of hazardous materials from Hazeltine's facility. In fiscal year 1995, the Court dismissed two counts of the complaint as a result of Hazeltine's motion to dismiss, and the plaintiffs filed an amended complaint. The plaintiffs filed a motion to be certified as a class, and, early in fiscal year 1997, the Court denied this motion. The plaintiffs appealed, and the state appellate court affirmed the denial in fiscal year 1998. Management believes the Company will be successful in defending this action and that the outcome will not have a material adverse effect on the Company's financial statements. Currently, settlement negotiations are underway. See Note 13 of the Notes to Consolidated Financial Statements in the 1999 Annual Report, which Note is herein incorporated by reference. See also Item 1. "Business - Environmental Matters" in this report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT.

The following sets forth certain information as of December 13, 1999 with respect to ESCO's executive officers. These officers have been elected to terms which expire at the first meeting of the Board of Directors after the next annual meeting of stockholders.

Name	Age	Position(s)
----	---	-----
Dennis J. Moore*	61	Chairman, President and Chief Executive Officer
Charles J. Kretschmer	43	Vice President and Chief Financial Officer
Alyson S. Barclay	40	Vice President, Secretary and General Counsel
Victor L. Richey, Jr.	42	Vice President, Administration

* Also a director and Chairman of the Executive Committee of the Board of Directors.

There are no family relationships among any of the executive officers and directors.

Since October 1992, Mr. Moore has been Chairman, President and Chief Executive Officer of ESCO.

Mr. Kretschmer has been Vice President of ESCO since February 9, 1999 and Vice President and Chief Financial Officer since October 11, 1999.

Ms. Barclay has been Vice President, Secretary and General Counsel of ESCO since October 11, 1999.

Mr. Richey has been Vice President, Administration of ESCO since May 7, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information required by this item is incorporated herein by reference to Notes 7 and 8 of the Notes to Consolidated Financial Statements, "Common Stock Market Prices" and "Shareholders' Summary - Capital Stock Information" appearing in the 1999 Annual Report. A special cash distribution of \$3.00 per share was paid to Stockholders in September 1996. No other cash dividends have been declared on the Common Stock, and ESCO does not anticipate, currently or in the foreseeable future, paying cash dividends on the Common Stock, although it reserves the right to do so to the extent permitted by applicable law and agreements. ESCO's dividend policy will be reviewed by the Board of Directors at such future time as may be appropriate in light of relevant factors at that time, based on ESCO's earnings and financial position and such other business considerations as the Board deems relevant at that time.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item, with respect to selected financial data, is incorporated herein by

reference to "Five-Year Financial Summary" and Note 2 of the Notes to Consolidated Financial Statements appearing in the 1999 Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is incorporated herein by reference to "Management's Discussion and Analysis" appearing in the 1999 Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to "Management's Discussion and Analysis - Market Risk Analysis" appearing in the 1999 Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated herein by reference to the Consolidated Financial Statements of the Company on pages 19 through 37 and the report thereon of KPMG LLP, independent certified public accountants, appearing on page 39 of the 1999 Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding nominees and directors appearing under "Nominees and Continuing Directors" in ESCO's Notice of the Annual Meeting of the Stockholders and Proxy Statement dated December 9, 1999 (the "2000 Proxy Statement") is hereby incorporated by reference. Information regarding executive officers is set forth in Part I of this Form 10-K.

Information appearing under "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2000 Proxy Statement is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information appearing under "Board of Directors and Committees" and "Executive Compensation" (except for the "Report of the Human Resources And Ethics Committee On Executive Compensation" and the "Performance Graph") in the 2000 Proxy Statement is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding beneficial ownership of Receipts representing shares of common stock by nominees and directors, by executive officers, by directors and executive officers as a group and by any five percent stockholders appearing under "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners" in the 2000 Proxy Statement is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as a part of this report:

1. The Consolidated Financial Statements of the Company on pages 19 through 37 and the Independent Auditors' Report thereon of KPMG LLP appearing on page 39 of the 1999 Annual Report.

2. Financial statement schedules have been omitted because the subject matter is disclosed elsewhere in the financial statements and notes thereto, is not required or not applicable, or the amounts are not sufficient to require submission.

3. Exhibits

2(a)(i)	Stock Purchase Agreement dated as of May 23, 1996 between ESCO and GEC-Marconi	Incorporated by Reference, Exhibit 2 [1]
2(a)(ii)	First Amendment Agreement dated as of July 19, 1996 to Stock Purchase Agreement listed as Exhibit 2(a)(i) above	Incorporated by Reference, Exhibit 2 [1]
2(b)(i)	Acquisition Agreement dated December 18, 1996 between the Company and Schawk, Inc.	Incorporated by Reference, Exhibit 2(a)[2]
2(b)(ii)	First Amendment dated as of February 6, 1998 to Acquisition Agreement listed as Exhibit 2(b)(i) above	Incorporated by Reference, Exhibit 2(b) [2]
2(c)	Stock Purchase Agreement dated as of August 23, 1999, as amended September 23, 1999 and September 30, 1999, among Engineered Systems and Electronics, Inc., ESCO and Defense Holding Corp.	Incorporated by Reference, Exhibit 2[3]
3(a)	Restated Articles of Incorporation of ESCO	
3(b)	Bylaws of ESCO, as amended	Incorporated by Reference, Exhibit 3(b)[4]
4(a)	Specimen certificate for ESCO's Common Stock Trust Receipts	Incorporated by Reference, Exhibit 4(a) [5]
4(b)	Rights Agreement dated as of September 24, 1990 between ESCO and Boatmen's Trust Company, as Rights Agent	Incorporated by Reference, Exhibit 4.2 [6]

4(c)(i)	Credit Agreement dated as of September 23, 1990 (as amended and restated as of December 30, 1992, amended as of January 15, 1993, October 15, 1993 and November 29, 1993, amended and restated as of May 27, 1994, amended as of August 5, 1994, amended and restated as of September 29, 1995, amended as of June 6, 1996 and August 2, 1996, and amended and restated as of February 7, 1997) among ESCO, Defense Holding Corp., the Banks listed therein and Morgan Guaranty Trust Company of New York, as Agent	Incorporated by Reference, Exhibit 4 [2]
4(c)(ii)	Amendment dated as of May 6, 1997 to Credit Agreement listed as Exhibit 4(c)(i) above	Incorporated by Reference, Exhibit 4(c)(ii)[7]
4(c)(iii)	Amendment dated as of November 21, 1997 to Credit Agreement listed as Exhibit 4(c)(i) above	Incorporated by Reference, Exhibit 4(c)(iii)[7]
4(c)(iv)	Amendment dated as of June 29, 1998 to Credit Agreement listed as Exhibit 4(c)(i) above	Incorporated by Reference, Exhibit 4[8]
4(c)(v)	Amendment dated as of August 30, 1999 to Credit Agreement listed as Exhibit 4(c)(i) above	
	No other long-term debt instruments are filed since the total amount of securities authorized under any such instrument does not exceed ten percent of the total assets of ESCO and its subsidiaries on a consolidated basis. ESCO agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.	
4(d)	Deposit and Trust Agreement dated as of September 24, 1990 among ESCO, Emerson Electric Co., Boatmen's Trust Company, as Trustee, and the holders of Receipts from time to time	Incorporated by Reference, Exhibit 4.3 [6]
10(a)	Distribution Agreement dated as of September 24, 1990 by and among ESCO, Emerson Electric Co., and ESCO's direct and indirect subsidiaries	Incorporated by Reference, Exhibit 2.1 [6]
10(b)	Tax Agreement dated as of September 24, 1990 by and among ESCO, Emerson Electric Co., and ESCO's direct and indirect subsidiaries	Incorporated by Reference, Exhibit 2.2 [6]
10(c)(i)	1990 Stock Option Plan*	Incorporated by Reference, Exhibit 10.3[6]

10(c)(ii)	Amendment to 1990 Stock Option Plan dated as of September 4, 1996*	Incorporated by Reference, Exhibit 10(c)(ii) [9]
10(d)	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10(g) [5]
10(e)	Form of Incentive Stock Option Agreement - Alternative*	Incorporated by Reference, Exhibit 10(h) [5]
10(f)	Form of Non-Qualified Stock Option Agreement*	Incorporated by Reference, Exhibit 10(i) [5]
10(g)	Form of Split Dollar Agreement*	Incorporated by Reference, Exhibit 10(j) [4]
10(h)	Form of Indemnification Agreement with each of ESCO's directors.	Incorporated by Reference, Exhibit 10(k) [4]
10(i)	Stock Purchase Agreement dated as of August 20, 1992 by and between Textron, Inc. and ESCO	Incorporated by Reference, Exhibit 10(l) [10]
10(j)(i)	1993 Performance Share Plan*	Incorporated by Reference [11]
10(j)(ii)	Amendment to 1993 Performance Share Plan dated as of September 4, 1996*	Incorporated by Reference, Exhibit 10(j)(ii) [9]
10(k)	Supplemental Executive Retirement Plan as amended and restated as of August 2, 1993*	Incorporated by Reference, Exhibit 10(n) [12]
10(l)(i)	Directors' Extended Compensation Plan*	Incorporated by Reference, Exhibit 10(o) [12]
10(l)(ii)	Compensatory Arrangement with former ESCO director*	Incorporated by Reference, Exhibit 10(l)(ii) [9]
10(m)(i)	1994 Stock Option Plan*	Incorporated by Reference [13]
10(m)(ii)	Amendment to 1994 Stock Option Plan dated as of September 4, 1996*	Incorporated by Reference, Exhibit 10(m)(ii) [9]
10(n)	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10(n)[14]
10(o)	Form of Non-Qualified Stock Option Agreement*	Incorporated by Reference, Exhibit 10(o) [14]
10(p)	Severance Plan*	Incorporated by Reference, Exhibit 10(p)[14]
10(q)	Performance Compensation Plan dated as of August 2, 1993 (as amended and restated as of October 1, 1995)*	Incorporated by Reference, Exhibit 10(q) [9]
10(r)	1997 Performance Share Plan*	Incorporated by Reference [15]
10(s)	Notice Of Award--stock award to executive officer*	Incorporated by Reference, Exhibit 10(s)[7]

10(t)	Notice of Award--stock award to executive officer*	Incorporated by Reference, Exhibit 10(a)[8]
10(u)	Notice of Award--stock award to executive officer*	Incorporated by Reference, Exhibit 10(b)[8]
10(v)	1999 Stock Option Plan*	Incorporated by Reference, Exhibit 4d[16]
10(w)	Form of Non-Qualified Stock Option Agreement*	Incorporated by Reference, Exhibit 4e[16]
10(x)	Form of Non-Qualified Stock Option Agreement-Alternative*	Incorporated by Reference, Exhibit 4f[16]
10(y)	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 4g[16]
10(z)	Form of Incentive Stock Option Agreement-Alternative*	Incorporated by Reference, Exhibit 4h[16]
10(aa)	Employment Agreement with Executive Officer*	
10(bb)	Employment Agreement with Executive Officer*[17]	
10(cc)	Special Separation Agreement with Former Executive Officer*	
10(dd)	Severance Agreement with Former Executive Officer*	
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 1999:	
	Five-Year Financial Summary (p. 40)	
	Management's Discussion and Analysis (pgs. 10-18)	
	Consolidated Financial Statements (pgs. 19-37) and Independent Auditors' Report (p. 39)	
	Shareholders' Summary--Capital Stock Information (p. 41)	
	Common Stock Market Prices (p. 40)	
21	Subsidiaries of ESCO	
23	Independent Auditors' Consent	
27	Financial Data Schedule	

[1] Incorporated by reference to Current Report on Form 8-K--date of earliest event reported: July

22, 1996, at the Exhibit indicated.

[2] Incorporated by reference to Form 10-Q for the fiscal quarter ended December 31, 1996, at the Exhibit indicated.

[3] Incorporated by reference to Current Report on Form 8-K--date of earliest event reported: September 30, 1999, at the Exhibit indicated.

[4] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1991, at the Exhibit indicated.

[5] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1990, at the Exhibit indicated.

[6] Incorporated by reference to Registration Statement on Form 10, as amended on Form 8 filed September 27, 1990, at the Exhibit indicated.

[7] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1997, at the Exhibit indicated.

[8] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 1998, at the Exhibit indicated.

[9] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1996, at the Exhibit indicated.

[10] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1992, at the Exhibit indicated.

[11] Incorporated by reference to Notice of the Annual Meeting of the Stockholders and Proxy Statement dated December 9, 1992.

[12] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1993, at the Exhibit indicated.

[13] Incorporated by reference to Notice of the Annual Meeting of the Stockholders and Proxy Statement dated December 8, 1994.

[14] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1995, at the Exhibit indicated.

[15] Incorporated by reference to Notice of the Annual Meeting of the Stockholders and Proxy Statement dated December 6, 1996.

[16] Incorporated by reference to Form S-8 Registration Statement filed December 17, 1999, at the Exhibit indicated.

[17] Identical Employment Agreements between ESCO and executive officers Alyson S. Barclay and Victor L. Richey, except that in the case of Ms. Barclay the minimum annual salary is \$94,000.

* Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c) of this Part IV.

(b) No report on Form 8-K was filed during the quarter ended September 30, 1999.

(c) Exhibits: Reference is made to the list of exhibits in this Part IV, Item 14(a)3 above.

(d) Financial Statement Schedules: Reference is made to Part IV, Item 14(a)2 above.

SIGNATURES

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

ESCO ELECTRONICS CORPORATION

By (s) D. J. Moore

D.J. Moore Chairman, President and Chief Executive Officer

Dated: December 17, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below effective December 17, 1999, by the following persons on behalf of the registrant and in the capacities indicated.

SIGNATURE	TITLE
(s) D. J. Moore _____ D.J. Moore	Chairman, President, Chief Executive Officer and Director
(s) C.J. Kretschmer _____ C.J. Kretschmer	Vice President and Chief Financial Officer (Principal Accounting Officer)
(s) W.S. Antle III _____ W.S. Antle	Director
(s) J.J. Carey _____ J.J. Carey	Director
(s) J.M. McConnell _____ J.M. McConnell	Director
(s) L.W. Solley _____ L.W. Solley	Director
(s) J.M. Stolze _____ J.M. Stolze	Director
(s) D.C. Trauscht _____ D.C. Trauscht	Director

INDEX TO EXHIBITS

Exhibits are listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K.

Exhibit No.	Exhibit
3(a)	Restated Articles of Incorporation of ESCO
4(c)(v)	Amendment Dated as of August 30, 1999 to Credit Agreement Listed as Exhibit 4(c)(i) herein
10(aa)	Employment Agreement with Executive Officer
10(bb)	Employment Agreement with Executive Officer
10(cc)	Special Separation Agreement with Former Executive Officer
10(dd)	Severance Agreement with Former Executive Officer
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 1999: Five-year Financial Summary (p. 40) Management's Discussion and Analysis (pgs. 10-18) Consolidated Financial Statements (pgs. 19-37) and Independent Auditors' Report (p. 39) Shareholders' Summary--Capital Stock Information (p. 41) Common Stock Market Prices (p. 40)
21	Subsidiaries of ESCO
23	Independent Auditors' Consent
27	Financial Data Schedule

See Item 14(a)3 for a list of exhibits incorporated by reference

Exhibit 3(a)

No. 00343584

[THE SECRETARY
OF STATE SEAL]

STATE OF MISSOURI
ROY D. BLUNT, Secretary of State

CORPORATION DIVISION

RESTATED ARTICLES OF INCORPORATION

WHEREAS, ESCO ELECTRONICS CORPORATION a corporation organized and existing under the General and Business Corporation Law has filed in the office of the Secretary of State duplicate originals of Restated Articles of Incorporation and has, in all respects, complied with the requirements of The General and Business Corporation Law governing Restated Articles of Incorporation:

NOW, THEREFORE, I, ROY D. BLUNT, Secretary of State of the State of Missouri, by virtue of the authority vested in me by law, do hereby certify that said Restated Articles have, on the date hereof, become effective; that the address of its Registered Office in Missouri is 8100 W. Florissant Avenue, St. Louis, Missouri 63136; that its period of existence is perpetual and that the amount of its authorized shares \$600,000.00 dollars, and that said Restated Articles supercede the original Articles of Incorporation and all amendments thereto.

[THE STATE SEAL
OF MISSOURI]

IN TESTIMONY WHEREOF, I hereunto set my hand and
affix the GREAT SEAL of the State of Missouri.
Done at the City of Jefferson, this 26th day of
September, Nineteen Hundred and Ninety.

Ray D. Blunt

Secretary of State

RESTATED ARTICLES OF INCORPORATION

OF

ESCO ELECTRONICS CORPORATION

ESCO Electronics Corporation, a Missouri corporation, does hereby restate its Articles of Incorporation as set forth in Exhibit A attached hereto, and certifies that the Restated Articles of Incorporation correctly set forth, without change, the corresponding provisions of the Articles of Incorporation as theretofore amended and that the Restated Articles of Incorporation supersede the original Articles of Incorporation and all amendments thereto.

The shareholders of the corporation, representing a majority of the outstanding shares entitled to vote, approved and adopted the above Restated Articles of Incorporation on behalf of the corporation.

Of the 1000 shares outstanding, 1000 of such shares were entitled to vote on such amendment. The number of outstanding shares of any class entitled to vote thereon as a class were as follows:

Class	Number of Outstanding Shares
----- Common	----- 1000

The number of shares voted for and against the amendment was as follows:

Class	No. Voted For	No. Voted Against
----- Common	----- 1000	----- -0-

IN WITNESS WHEREOF, the undersigned, (Vice) President has executed this instrument and its (Assistant) Secretary has affixed its corporate seal hereto and attested said seal on the 23rd day of September, 1990.

**CORPORATE ESCO ELECTRONICS CORPORATION
SEAL**

ATTEST:

BY: /s/ D.R. Perkins

Its: (Vice) President

/s/ ??

(Assistant) Secretary

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

I, Dawn M. LaBeau, notary public, do hereby certify that on this 25th day of September, 1990, personally appeared before me D.R. Perkins, who, being by me first duly sworn, declared that he is the (Vice) President of ESCO Electronics Corporation, that he signed the foregoing document as (Vice) President of the corporation, and that the statements therein contained are true.

[SEAL]

/s/ Dawn M. LaBeau

Notary Public

My Commission Expires:

2-17-92

DAWN M. LaBEAU
NOTARY PUBLIC - STATE OF MISSOURI
ST. CHARLES COUNTY
MY COMMISSION EXPIRES FEB. 17, 1992

FILED AND CERTIFICATE
ISSUED
SEP 26 1990
ROY D. BLUNT
CORPORATION DEPT. SECRETARY OF STATE

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Restated Articles

EXHIBIT A
RESTATED
ARTICLES OF INCORPORATION
OF
ESCO ELECTRONICS CORPORATION

ARTICLE ONE

NAME

The name of the corporation (hereinafter referred to as the "Corporation") is: ESCO Electronics Corporation.

ARTICLE TWO

REGISTERED OFFICE AND AGENT

The address, including street and number, if any, of the Corporation's initial registered office in this state is 8100 W. Florissant Avenue, St. Louis, Missouri 63136. The name of its initial agent at such address is Harley M. Smith.

ARTICLE THREE

CAPITAL STOCK

A. CLASS AND NUMBER OF SHARES. The aggregate number, class and par value, if any, of shares which the Corporation shall have authority to issue is 60,000,000 shares,

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consisting of 50,000,000 shares of Common Stock, par value \$.01 per share, and 10,000,000 shares of Preferred Stock, par value \$.01 per share.

B. VOTING RIGHTS OF THE COMMON STOCK. Each holder of the Common Stock shall be entitled to one vote per share of Common Stock on all matters to be voted on by the stockholders.

C. ISSUANCE OF PREFERRED STOCK, RIGHTS AND PREFERENCES THEREOF.

1. The Preferred Stock may be issued from time to time in one or more series, with such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated in the resolution or resolutions providing for the issuance of such stock adopted from time to time by the Board of Directors. Without limiting the generality of the foregoing, in the resolution or resolutions providing for the issuance of such shares of each particular series of Preferred Stock, subject to the requirements of the laws of the State of Missouri, the Board of Directors is also expressly authorized:

- (a) To fix the distinctive serial designation of the shares of the series;
- (b) To fix the consideration for which the shares of the series are to be issued;

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Restated Articles -4-

- (c) To fix the rate or amount per annum, if any, at which the holders of the shares of the series shall be entitled to receive dividends, the dates on which and the conditions under which dividends shall be payable, whether dividends shall be cumulative or noncumulative, and if cumulative, the date or dates from which dividends shall be cumulative;
- (d) To fix the price or prices at which, the times during which, and the other terms, if any, upon which the shares of the series may be redeemed;
- (e) To fix the rights, if any, which the holders of shares of the series have in the event of dissolution or upon distribution of the assets of the Corporation;
- (f) From time to time to include additional shares of Preferred Stock which the Corporation is authorized to issue in the series;
- (g) To determine whether or not the shares of the series shall be made convertible into or exchangeable for other securities of the Corporation, including shares of the Common Stock of the Corporation or shares of any other series of the Preferred Stock of the Corporation, now or hereafter authorized, or any new class of Preferred Stock of the Corporation hereafter authorized, the price or prices or the rate or rates at which conversion or exchange may be made, and the terms and conditions upon which the conversion or exchange right shall be exercised;

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Restated Articles -5-

(h) To determine if a sinking fund shall be provided for the purchase or redemption of shares of the series and, if so, to fix the terms and the amount or amounts of the sinking fund; and

(i) To fix the other preferences and rights, privileges and restrictions applicable to the series as may be permitted by law,

ARTICLE FOUR

ADDITIONAL PROVISIONS REGARDING CERTAIN SHAREHOLDER RIGHTS

A. **PREEMPTIVE RIGHTS.** All preemptive rights of shareholders are hereby denied, so that no stock or other security of the Corporation shall carry with it and no holder or owner of any share or shares of stock or other security or securities of the corporation shall have any preferential or preemptive right to acquire additional shares of stock or any other security of the Corporation.

B. **CUMULATIVE VOTING.** All cumulative voting rights are hereby denied, so that none of the Common Stock, the Preferred Stock or any other security of the Corporation shall carry with it and no holder or owner of any Common Stock, Preferred Stock or any other security shall have any right to cumulative voting in the election of directors or for any other purpose.

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C. VOTING AGREEMENTS.

1. The foregoing provisions are not intended to modify or prohibit any provisions of any voting trust or agreement between or among holders or owners of shares of stock or other securities of the Corporation.
2. For so long as the Trust created pursuant to the Deposit and Trust Agreement dated as of September 24, 1990 by and among the Corporation, Emerson Electric Co. and Boatmen's Trust Company, as depositary and trustee thereunder (the "Trustee"), as amended from time to time (the "Trust Agreement"), is in existence, the Corporation shall not issue any "Voting Securities" as defined in the Trust Agreement unless such securities are delivered to the Trustee to be held and administered as required by the terms of the Trust Agreement. Notwithstanding any provision to the contrary in these Articles of Incorporation or the Bylaws of the Corporation, upon the occurrence and during the continuance of a "Collateralization Default" as defined in the Trust Agreement, and as permitted by the Trust Agreement, the Trustee may, at any time and from time to time, exercise any and all rights, powers and privileges which it may have as a shareholder of the Corporation for the purpose of calling a special meeting of the shareholders of the Corporation, executing an action by written consent or taking other appropriate action for the purpose of (a) removing one or more Directors (including the entire Board of Directors), with or

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Restated Articles -7-

without cause, (b) increasing or decreasing the number of Directors comprising the entire Board of Directors, (c) nominating and electing new Directors, including filling any vacancy from time to time created, and/or (d) amending these Articles of Incorporation or the Bylaws of the Corporation to accomplish any of the foregoing purposes. Notice of any special meeting of shareholders called for such purpose shall be given by the Corporation as soon as practicable after call of the meeting by the Trustee, in accordance with all requirements of law. Such notice need only comply with the minimum requirements imposed by law, notwithstanding any longer time period or other requirements imposed by these Articles of Incorporation or the Bylaws of the Corporation or otherwise. Notwithstanding any provision to the contrary in these Articles of Incorporation or the Bylaws of the Corporation, at any such meeting called by the Trustee, the Trustee, exercising the voting rights of all shareholders of the Corporation pursuant to the Trust Agreement, may remove, with or without cause, any Director, or the entire Board of Directors, increase or decrease the number of Directors comprising the entire Board of Directors, nominate and elect a new Director for each vacancy, and/or amend these Articles of Incorporation or the Bylaws of the Corporation to accomplish any of the foregoing purposes. Any such action may, to the extent otherwise allowed by law, be taken without a meeting of shareholders if consents in writing, setting forth the action

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Restated Articles -8-

so taken, are signed by the percentage required by law of the shareholders entitled to vote with respect to the subject matter thereof. The provisions of this Article Four, Section C(2) shall automatically terminate upon liquidation of the Trust created pursuant to the Trust Agreement.

ARTICLE FIVE

INCORPORATOR

The name and place of residence of the incorporator is:

Stephanie Morrison 549 N. Van Buren Kirkwood, Missouri 63122

ARTICLE SIX

DIRECTORS

A. NUMBER AND CLASSES OF DIRECTORS. The number of directors to constitute the initial Board of Directors of the Corporation is three. Thereafter, subject to the provisions set forth in Article Four, Section C(2) hereof, the number of directors shall be fixed by, or in the manner provided in, the Bylaws of the Corporation. The Board of Directors shall be divided into three classes, as nearly equal in number as possible, with the mode of such classification to be provided for in the Bylaws of the Corporation. Directors other than certain Directors elected to the initial Board of Directors shall be elected to hold office for a term of three years, with the term of office of one class expiring each year. As used in

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Restated Articles -9-

these Articles of Incorporation, the term "entire Board of Directors" means the total number of Directors fixed by, or in accordance with, these Articles of Incorporation or the Bylaws of the Corporation.

B. REMOVAL OF DIRECTORS. Subject to the rights, if any, of the holders of any class of capital stock of the Corporation (other than the Common Stock) then outstanding and subject to the provisions set forth in Article Four, Section C(2) hereof, (1) any Director, or the entire Board of Directors, may be removed from office at any time prior to the expiration of his or their term of office only for cause and only by the affirmative vote of the holders of record of outstanding shares representing at least 85% of all of the then outstanding shares of capital stock of the Corporation then entitled to vote generally in the election of Directors, voting together as a single class at a special meeting of shareholders called expressly for that purpose (such vote being in addition to any required class or other vote); and (2) any Director may be removed from office by the affirmative vote of a majority of the entire Board of Directors at any time prior to the expiration of his term of office, as provided by law, in the event that the Director fails to meet any qualifications stated in the Bylaws for election as a Director or in the event that the Director is in breach of any agreement between the Director and the Corporation relating to the Director's service as a Director or employee of the Corporation.

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C. NOMINATIONS. Subject to the rights, if any, of holders of any class of capital stock of the Corporation (other than the Common Stock) then outstanding, nominations for the election of Directors may be made by the affirmative vote of a majority of the entire Board of Directors or by any shareholder of record entitled to vote generally in the election of Directors. Subject to the provisions set forth in Article Four, Section C(2) hereof, any shareholder who otherwise desires to nominate one or more persons for election as a Director at any meeting of shareholders held at any time may do so only if the shareholder has delivered timely notice of the shareholder's intent to make such nominations, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not less than 60 days nor more than 90 days prior to the meeting; provided, however, that if less than 50 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, such notice by the shareholder to be timely must be received not later than the close of business on the 10th day following the day on which the notice of the date of meeting was mailed or public disclosure was made, whichever occurs first. A shareholder's notice to the Secretary shall set forth:

(1) the name and address of record of the shareholder who intends to make the nomination; (2) a representation that the shareholder is a holder of record of shares of capital stock of the Corporation entitled to vote at

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the meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (3) the class and number of shares of the capital stock that are beneficially owned by the shareholder on the date of such notice; (4) the name, age, business and residential addresses, and principal occupation or employment of each proposed nominee; (5) the class and number of shares of capital stock that are beneficially owned by such nominee on the date of such notice; (6) a description of all arrangements or understandings between the shareholder and each nominee and the name of any other person or persons pursuant to which the nomination or nominations are to be made by the shareholder; (7) any other information regarding each proposed nominee that would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (8) the written consent of each proposed nominee to being named as a nominee in the proxy statement and to serve as a Director of the Corporation if so elected. The Corporation may require any proposed nominee to furnish any other information it may reasonably require to determine the eligibility of the proposed nominee to serve as a Director of the Corporation. The presiding officer of the meeting may, if the facts warrant, determine that a nomination was not made in accordance with the foregoing procedure, and if he should make that determination, he shall so declare at the meeting and the defective nomination shall be disregarded.

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D. VACANCIES. Subject to the rights, if any, of the holders of any class of capital stock of the Corporation (other than the Common Stock) then outstanding and subject to the provisions set forth in Article Four, Section C(2) hereof, any vacancies in the Board of Directors which occur for any reason prior to the expiration of the term of office of the class in which the vacancy occurs, including vacancies which occur by reason of an increase in the number of Directors, shall be filled only by the Board of Directors, acting by the affirmative vote of a majority of the remaining Directors then in office (although less than a quorum).

ARTICLE SEVEN

DURATION

The duration of the Corporation is perpetual.

ARTICLE EIGHT

PURPOSES

The Corporation is formed for the following purposes:

1. To manufacture, sell and distribute any and all kinds of machinery, equipment and things of any and all kinds;
2. To transact any lawful business in aid of the United States or any instrumentality thereof or any political subdivision thereof, or any country from time to time in alliance therewith; and

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3. To do anything permitted of corporations pursuant to the provisions of The General and Business Corporation Law of Missouri, as amended from time to time.

ARTICLE NINE

SHAREHOLDERS' MEETINGS

A. SPECIAL MEETINGS. Subject to the provisions set forth in Article Four, Section C(2) hereof, a special meeting of the shareholders may be called only by the Board of Directors pursuant to a resolution adopted by the affirmative vote of a majority of the entire Board of Directors or by the Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, or the President. Only such business shall be conducted, and only such proposals shall be acted upon, as is specified in the call of any special meeting of shareholders.

B. ANNUAL MEETINGS. At any annual meeting of shareholders only such business shall be conducted, and only such proposals shall be acted upon, as shall have been properly brought before the meeting by the Board of Directors or by a shareholder of record entitled to vote at such meeting. Subject to the provisions set forth in Article Four, Section C(2) hereof, for a proposal to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not less than 60 days nor more than 90 days prior

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to the annual meeting; provided, however, that if less than 50 days' notice or prior public disclosure of the date of the annual meeting is given or made to shareholders, notice by the shareholder to be timely must be received not later than the close of business on the 10th day following the earlier of (1) the day on which notice of the date of the annual meeting was mailed or (2) the day on which public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting: (a) a brief description of the proposal desired to be brought before the annual meeting and the reasons for conducting this business at the annual meeting; (b) the name and address of record of the shareholder proposing the business and any other shareholders known by such shareholder to be supporting the proposal; (c) the class and number of shares of the capital stock which are beneficially owned by the shareholder on the date of the shareholder notice and by any other shareholders known by such shareholder to be supporting the proposal on the date of the shareholder notice; and (d) any material interest of the shareholder in the proposal.

The Board of Directors may reject any shareholder proposal submitted for consideration at the annual meeting which is not made in accordance with the terms of this Article Nine or which is not a proper subject for shareholder action in accordance with provisions of applicable law. Alternatively, if the Board of Directors fails to consider the

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validity of any shareholder proposal, the presiding officer of the annual meeting may, if the facts warrant, determine and declare at the annual meeting that the shareholder proposal was not made in accordance with the terms of this Article and, if he should make that determination, he shall so declare at the meeting and the business or proposal shall not be acted upon. This provision shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, directors and committees of the Board of Directors, but, in connection with such reports, no new business shall be acted upon at the meeting unless stated, filed and received as herein provided.

C. ACTION BY WRITTEN CONSENT. Subject to the provisions set forth in Article Four, Section C(2) hereof, any action required or permitted to be taken by the shareholders of the Corporation may, if otherwise allowed by law, be taken without a meeting of shareholders only if consents in writing, setting forth the action so taken, are signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

ARTICLE TEN

AMENDMENT OF BYLAWS

Subject to the provisions set forth in Article Four, Section C(2) hereof, the Bylaws of the Corporation may be amended, altered, changed or repealed, and a provision or provisions inconsistent with the provisions of the Bylaws as

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they exist from time to time may be adopted, only by the majority of the entire Board of Directors.

**ARTICLE ELEVEN
AMENDMENT OF ARTICLES OF
INCORPORATION**

The Corporation reserves the right to amend, alter, change or repeal any provision contained in these Articles of Incorporation in the manner now or hereafter prescribed by law, and all rights and powers conferred herein on the shareholders, directors and officers of the Corporation are subject to this reserved power; provided, that (in addition to any required class or other vote) the affirmative vote of the holders of record of outstanding shares representing at least 85% of all of the outstanding shares of capital stock of the Corporation then entitled to vote generally in the election of Directors, voting together as a single class, shall be required to amend, alter, change or repeal, or adopt any provision or provisions inconsistent with, Articles Four, Six, Nine, Ten, Twelve, or this Article Eleven of these Articles of Incorporation, subject, however, to the provisions set forth in Article Four, Section C(2) hereof.

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**ARTICLE TWELVE
INDEMNIFICATION AND RELATED MATTERS**

A. ACTIONS INVOLVING DIRECTORS AND OFFICERS. The Corporation shall indemnify each person (other than a party plaintiff suing his own behalf or in the right of the Corporation) who at any time is serving or has served as a director or officer of the Corporation against any claim, liability or expense incurred as a result of this service, or as a result of any other service on behalf of the Corporation, or service at the request of the Corporation as a director, officer, employee, member or agent of another corporation, partnership, joint venture, trust, trade or industry association or other enterprise (whether incorporated or unincorporated, for-profit or not-for-profit), to the maximum extent permitted by law. Without limiting the generality of the foregoing, the Corporation shall indemnify any such person who was or is a party (other than a party plaintiff suing on his own behalf or in the right of the Corporation), or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including, but not limited to, an action by or in the right of the Corporation) by reason of such service against expenses (including, without limitation, attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding.

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B. ACTIONS INVOLVING EMPLOYEES OR AGENTS.

1. The corporation may, if it deems appropriate and as may be permitted by this Article, indemnify any person (other than a party plaintiff suing on his own behalf or in right of the Corporation) who at any time is serving or has served as an employee or agent of the Corporation against any claim, liability or expense incurred as a result of such service or as a result of any other service on behalf of the Corporation, or service at the request of the Corporation as a director, officer, employee, member or agent of another corporation, partnership, joint venture, trust, trade or industry association or other enterprise (whether incorporated or unincorporated, for-profit or not-for-profit), to the maximum extent permitted by law or to such lesser extent as the Corporation, in its discretion, may deem appropriate. Without limiting the generality of the foregoing, the Corporation may indemnify any such person who was or is a party (other than a party plaintiff suing on his own behalf or in the right of the Corporation), or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including, but not limited to, an action by or in the right of the Corporation) by reason of such service against expenses (including, without limitation, attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding.

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2. To the extent that an employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section B(1) of this Article, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the action, suit or proceeding.

C. DETERMINATION OF RIGHT TO INDEMNIFICATION IN CERTAIN CIRCUMSTANCES. Any indemnification required under Section A of this Article or authorized by the Corporation in a specific case pursuant to Section B of this Article (unless ordered by a court) shall be made by the Corporation unless a determination is made reasonably and promptly that indemnification of the director, officer, employee or agent is not proper under the circumstances because he has not met the applicable standard of conduct set forth in or established pursuant to this Article. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by majority vote of the shareholders; provided that no such determination shall preclude an action brought in an appropriate court to challenge such determination.

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D. ADVANCE-PAYMENT OF EXPENSES. Expenses incurred by a person who is or was a director or officer of the Corporation in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of an action, suit or proceeding, and expenses incurred by a person who is or was an employee or agent of the Corporation in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by or at the direction of the Board of Directors, in either case upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in or pursuant to this Article.

E. NOT EXCLUSIVE RIGHT. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled, whether under the Bylaws of the Corporation or any statute, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office.

F. INDEMNIFICATION AGREEMENTS AUTHORIZED. Without limiting the other provisions of this Article, the Corporation is authorized from time to time, without further action by the

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Restated Articles -21-

shareholders of the Corporation, to enter into agreements with any director, officer, employee or agent of the Corporation providing such rights of indemnification as the Corporation may deem appropriate, up to the maximum extent permitted by law. Any agreement entered into by the Corporation with a director may be authorized by the other directors, and such authorization shall not be invalid on the basis that similar agreements may have been or may thereafter be entered into with other directors.

G. STANDARD OF CONDUCT. Except as may otherwise be permitted by law, no person shall be indemnified pursuant to this Article (including without limitation pursuant to any agreement entered into pursuant to section F of this Article) from or on account of such person's conduct which is finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct. The Corporation may (but need not) adopt a more restrictive standard of conduct with respect to the indemnification of any employee or agent of the Corporation.

H. INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is- or was a director, officer, employee or agent of the Corporation, or who is or was otherwise serving on behalf or at the request of the Corporation against any claim, liability or expense asserted against him and incurred by him in any such capacity, or

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arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article.

I. CERTAIN DEFINITIONS. For the purposes of this Article:

1. Any director or officer of the Corporation who shall serve as a director, officer or employee of any other corporation, partnership, joint venture, trust or other enterprise of which the Corporation, directly or indirectly, is or was the owner of 20% or more of either the outstanding equity interests or the outstanding voting stock (or comparable interests), shall be deemed to be so serving at the request of the Corporation, unless the Board of Directors of the Corporation shall determine otherwise. In all other instances where any person shall serve as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise of which the Corporation is or was a stockholder or creditor, or in which it is or was otherwise interested, if it is not otherwise established that such person is or was serving as a director, officer, employee or agent at the request of the Corporation, the Board of Directors of the Corporation may determine whether such service is or was at the request of the Corporation, and it shall not be necessary to show any actual or prior request for such service.

2. References to a corporation include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation so that any

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person who is or was a director, officer, employee or agent of a constituent corporation or is or was serving at the request of a constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as he would if he had served the resulting or surviving corporation as he would if he had served the resulting or surviving corporation in the same capacity.

3. The term "other enterprise" shall include, without limitation, employee benefit plans and voting or taking action with respect to stock or other assets therein; the term "serving at the request of the corporation" shall include, without limitation, any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, a director, officer, employee or agent with respect to any employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have satisfied any standard of care required by or pursuant to this Article in connection with such plan; the term "fines" shall include, without limitation, any excise taxes assessed on a person with respect to an employee benefit plan and shall also include any damages (including treble damages) and any other civil penalties.

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J. SURVIVAL. Any indemnification rights provided pursuant to this Article shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. Notwithstanding any other provision in these Articles of Incorporation, any indemnification rights arising under or granted pursuant to this Article shall survive amendment or repeal of this Article with respect to any acts or omissions occurring prior to the effective time of such amendment or repeal and persons to whom such indemnification rights are given shall be entitled to rely upon such indemnification rights with respect to such acts or omissions as a binding contract with the Corporation.

K. LIABILITY OF THE DIRECTORS. It is the intention of the Corporation to limit the liability of the directors of the Corporation, in their capacity as such, whether to the Corporation, its shareholders or otherwise, to the fullest extent permitted by law. Consequently, should The General and Business Corporation Law of Missouri or any other applicable law be amended or adopted hereafter so as to permit the elimination or limitation of such liability, the liability of the directors of the Corporation shall be so eliminated or limited without the need for amendment of these Articles or further action on the part of the shareholders of the Corporation.

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STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE 314/751-4609
JEFFERSON CITY 65102
January 31, 1991

Re: ESCO ELECTRONICS CORPORATION (00343584)

Dear Corporation:

This is to advise that on this date we have filed for record in this office a copy of the Statement of Reduction of Stated Capital of the above corporation. We return herewith the duplicate "Filed" copy for your records.

The fee for filing the document in this office is \$20.00. This will acknowledge receipt of your check for that amount.

Very truly yours,

ROY D. BLUNT
Secretary of State

Corporation Division
Amendment Desk

Enclosure

Ltr. #24
1/85

Received Feb 7 1991
E&S LEGAL SERVICES

STATEMENT OF REDUCTION OF STATED CAPITAL

OF

ESCO ELECTRONICS CORPORATION

**HONORABLE ROY D. BLUNT
SECRETARY OF STATE
STATE OF MISSOURI
JEFFERSON CITY, MISSOURI 65102**

Pursuant to the provisions of The General and Business Corporation Law of Missouri, the undersigned corporation certifies the following:

(1) The name of the corporation is ESCO ELECTRONICS CORPORATION.

(2) The following resolution was adopted by the sole shareholder on October 19, 1990:

RESOLVED, that the sole shareholder of the Company deems it necessary and advisable that the Company's Stated Capital be reduced from \$120,010.00 to \$111,671.53 by reason of cancellation of 833,847 issued but not outstanding share of Common Stock, par value \$0.01 per share.

(3) Of the 11,167,153 shares outstanding, 11,167,153 shares were entitled to vote on such reduction. The number of outstanding share entitled to vote thereon as a class was as follows:

Class	Number of Outstanding Shares
-----	-----
Common	11,167,153

(4) The number of shares voted for and against the reduction was as follows:

Class	No. Voted For	No. Voted Against
-----	-----	-----
Common	11,167,153	0

(5) Upon the filing of this Statement of Reduction, the stated capital and the paid-in surplus of the corporation stated as of September 30, 1990, adjusted to give effect to the reduction, is as follows:

	Before Reduction -----	After Reduction -----
Stated Capital	\$ 120,010.00	\$ 111,671.53
Paid-In Surplus	\$482,548,112.53	\$482,554,451.00

IN WITNESS WHEREOF, the undersigned (Senior Vice) President has executed this instrument and its Secretary has attested to said instrument on the 22nd day of January, 1991.

ESCO ELECTRONICS CORPORATION

(CORPORATE SEAL)

ATTEST:

By /s/ Philip M. Ford

Philip M. Ford
(Senior Vice) President

/s/ Walter Stark

Walter Stark
Secretary

STATE OF MISSOURI)
) SS.
COUNTY OF ST. LOUIS)

FILED
JAN 31 1991
Ray D. Blunt
SECRETARY OF STATE

I, Cynthia Sue Finazzo, a notary public, do hereby certify that on this 22 day of January, 1991, personally appeared before me Philip M. Ford who, being by me first duly sworn, declared that he is the (Senior Vice) President of ESCO ELECTRONICS CORPORATION, that he signed the foregoing document as (Senior Vice) President of the corporation, and that the statements therein contained are true.

[SEAL]

/s/ Cynthia Sue Finazzo

Notary Public

My Commission Expires:

CYNTHIA SUE FINAZZO

**NOTARY PUBLIC--STATE OF MISSOURI
ST. LOUIS COUNTY
MY COMMISSION EXPIRES JAN. 29, 1994**

**CERTIFICATE OF DESIGNATION
OF
SERIES A PARTICIPATING CUMULATIVE
PREFERRED STOCK**

OF

ESCO ELECTRONICS CORPORATION

Pursuant to Section 351 of the
Revised Statutes of Missouri

We, D.J. Moore, President, and A.S. Barclay, Secretary, of ESCO Electronics Corporation, a corporation organized and existing under the laws of the General Business and Corporations Law of Missouri (the "GBCL"), in accordance with the provisions thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Articles of Incorporation of the Corporation, the Board of Directors on September 24, 1990, adopted the following resolution creating a series of Preferred Stock in the amount and having the designation, voting powers, preferences and relative, participating, optional and other special rights and qualifications, limitations and restrictions thereof as follows:

Section 1. Designation and Number of Shares. The shares of such series shall be designated as "Series A Participating Cumulative Preferred Stock" (the "Series A Preferred Stock"), and the number of shares constituting such series shall be One Hundred Twenty Thousand (120,000). Such number of shares of the Preferred Stock may be increased or decreased by resolution of the Board of Directors; provided that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than that of the shares then outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

Section 2. Dividends and Distributions.

(A) The holders of shares of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable on March 31, June 30, September 30 and December 31 of each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of any share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1.00 and (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends or other distributions and 100 times the aggregate per share amount of all non-cash dividends or other distributions

(other than (i) a dividend payable in shares of Common Stock (as hereinafter defined) or (ii) a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise)), declared on the Common Stock, par value \$.01 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. If the Corporation shall at any time after September 24, 1990 (the "Rights Declaration Date") pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than as described in clause (i) and (ii) of the first sentence of paragraph (A)); provided that if no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date (or, with respect to the first Quarterly Dividend Payment Date, the period between the first issuance of any share or fraction of a share of Series A Preferred Stock and such first Quarterly Dividend Payment Date), a dividend of \$1.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Preferred Stock, unless the date of issue of such shares is on or before the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue and be cumulative from the date of issue of such shares, or unless the date of issue is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and on or before such Quarterly Dividend Payment Date, in which case dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall not be more than such number of days prior to the date fixed for the payment thereof as may be allowed by applicable law.

Section 3. Voting Rights. In addition to any other voting rights required by law, the holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of stockholders of the Corporation. If the Corporation shall at any time after the Rights Declaration Date pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as a single class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at any time dividends on any Series A Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preferred Stock and any other series of Preferred Stock then entitled as a class to elect directors, voting together as a single class, irrespective of series, shall have the right to elect two Directors.

(ii) During any default period, such voting right of the holders of Series A Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that neither such voting right nor the right of the holders of any other series of Preferred Stock, if any, to increase, in certain cases, the authorized number of Directors shall be exercised unless the holders of 10% in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of holders of Common Stock shall not affect the exercise by holders of Preferred Stock of such voting right. At any meeting at which holders of Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect Directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two Directors or, if such right is exercised at an annual meeting, to elect two Directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of Directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect Directors in any default period and during

the continuance of such period, the number of Directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series A Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of special meeting of holders of Preferred Stock, which meeting shall thereupon be called by the President, a Vice President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this paragraph (C)(iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 10 days and not later than 50 days after such order or request or in default of the calling of such meeting within 50 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding, irrespective of series.

Notwithstanding the provisions of this paragraph

(C)(iii), no such special meeting shall be called during the period within 50 days immediately preceding the date fixed for the next annual meeting of stockholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of Directors until the holders of Preferred Stock shall have exercised their right to elect two Directors voting as a class, after the exercise of which right (x) the Directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in paragraph (C)(ii) of this Section 3) be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class of stock which elected the Director whose office shall have become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of Directors shall be such number as may be provided for in the articles of incorporation or bylaws irrespective of any increase made pursuant to the provisions of paragraph (C)(ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the certificate of incorporation or bylaws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

(D) The Articles of Incorporation of the Corporation shall not be amended in any manner (whether by merger or otherwise) so as to adversely affect the powers, preferences or

special rights of the Series A Preferred Stock without the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred Stock, voting separately as a class.

(E) Except as otherwise provided herein, holders of Series A Preferred Stock shall have no special voting rights, and their consent shall not be required for taking any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on outstanding shares of Series A Preferred Stock shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, or make any other distributions on, any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends on, or make any other distributions on, any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such other parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem, purchase or otherwise acquire for value any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock; provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of stock of the Corporation ranking junior (as to dividends and upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem, purchase or otherwise acquire for value any shares of Series A Preferred Stock, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of Series A Preferred Stock and all such other parity stock upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for value any shares of stock of the Corporation unless the

Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. **Reacquired Shares.** Any shares of Series A Preferred Stock redeemed, purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock without designation as to series and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors as permitted by the Articles of Incorporation or as otherwise permitted under Missouri Law.

Section 6. **Liquidation, Dissolution or Winding Up.** Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received \$1.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment; provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock, or (2) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such other parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. If the Corporation shall at any time after the Rights Declaration Date pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. **Consolidation, Merger, etc.** If the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash or any other property, then in any such case the shares of Series A Preferred Stock shall at the same time be similarly exchanged for or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount of stock, securities, cash or any other property, as the case may be, into which or for which each share of Common Stock is changed or exchanged. If the Corporation shall at any time after the Rights Declaration Date pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth

in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The Series A Preferred Stock shall not be redeemable.

Section 9. Rank. The Series A Preferred Stock shall rank junior (as to dividends and upon liquidation, dissolution and winding up) to all other series of the Corporation's preferred stock except any series that specifically provides that such series shall rank junior to the Series A Preferred Stock.

Section 10. Fractional Shares. Series A Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Stock.

EXHIBIT 4 (c)(v)

CONFORMED COPY

FOURTH AMENDMENT, CONSENT AND WAIVER dated as of August 30, 1999 (this "Amendment"), to the Credit Agreement dated as of September 23, 1990, as amended and restated as of February 7, 1997, as amended by the Amendment dates as of May 6, 1997, the Amendment dates as of November 21, 1997 and the Third Amendment dated as of November 29, 1998 (the "Credit Agreement"), among ESCO ELECTRONIC CORPORATION, a Missouri corporation ("Parent"), DEFENSE HOLDING CORP., formerly Emerson Defense Holding Corp., a Delaware corporation (the "Borrower"), the financial institutions party thereto as lenders (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent. Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Credit Agreement.

The Borrower intends to sell all the capital stock of SEI to Engineered Systems and Electronics, Inc. (the "Purchaser") for a purchase price not less than \$85,000,000 pursuant to the Stock Purchase Agreement (the "SEI Purchase Agreement") dated August 23, 1999, among the Parent, the Borrower and the Purchaser (the "SEI Sale"), substantially in the form attached hereto as Exhibit

A. The Borrower intends to use a portion of the proceeds of the SEI Sale to repay the outstanding principal amount of the Term Loans and a portion of the outstanding Working Capital Loans.

The Borrower has requested that the Required Banks consent to the SEI Sale and agree to amend and waive certain provisions of the Credit Agreement as provided herein. The Required Banks are willing, on the terms, subject to the conditions and to the extent set forth below, to consent to the SEI Sale and so to amend and waive such provisions of the Credit Agreement.

In consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto hereby agree, on the terms and subject to the conditions set forth herein, as follows:

SECTION 1. Amendment. (a) Schedule 1 of the Credit Agreement is hereby amended by deleting such Schedule in its entirety and substituting in lieu thereof Schedule 1 hereto.

SECTION 2. Consent and Waiver. The Required Banks hereby consent to the consummation of the SEI Sale and waive compliance by the Borrower with Section 5.13 of the Credit Agreement to the extent (but only to the extent) necessary to allow the consummation of the SEI Sale. The Required Banks further consent to the execution and delivery by the Agent of all termination statements and other documents with respect to the release of SEI from its obligations under the Security Documents and the Guarantee Agreement and the release of the pledge of the stock of SEI by the Borrower pursuant to the Pledge Agreement.

SECTION 3. Representations and Warranties. Each of ESCO and the Borrower represents and warrants to the Agent and each of the other Banks that:

(a) After giving effect to this Amendment, the representations and warranties set forth in Article IV of the Credit Agreement are true and correct in all material respects with the same effect as if made on the date hereof, except to the extent such representations and warranties expressly related to an earlier date.

(b) After giving effect to his Amendment, no Event of Default or Default has occurred and is continuing.

SECTION 4. Conditions to Effectiveness. This Amendment shall become effective as of the date first above written when (a) the Agent shall have received counterparts of this Amendment that, when taken together, bear the signatures of ESCO, the Borrower and the Required Banks, (b) all outstanding Term Loans and Working Capital Loans in excess of the Working Capital Commitments, as reduced pursuant to this Amendment, shall have been prepaid in full and (c) the SEI Sale shall have been consummated in accordance with its terms.

SECTION 5. Credit Agreement. Except as specifically amended and waived hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Credit Agreement shall mean the Credit Agreement as amended hereby. This Amendment shall constitute a Loan Document for all purposes under the Credit Agreement.

SECTION 6. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 7. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract. Delivery of an executed signature page of this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

SECTION 8. Expenses. The Borrower agrees to reimburse the Agent for its out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Agent.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

ESCO ELECTRONICS CORPORATION,

by /s/ Donald H. Nonnenkamp

Name: Donald H. Nonnenkamp

Title: Vice President & Treasurer

DEFENSE HOLDING CORP.,

by /s/ Dennis J. Moore

Name: Dennis J. Moore

Title: Chairman of the Board &
President

MORGAN GUARANTY TRUST COMPANY OF NEW YORK,
individually and as Agent,

by /s/ *Sovanna L. Day*

Name: *Sovanna L. Day*
Title: *Vice President*

BANK OF AMERICA, N.A.,

by /s/ *Steven A. Linton*

Name: *Steven A. Linton*
Title: *Vice President*

THE BANK OF NEW YORK,

by /s/ *David G. Shedd*

Name: *David G. Shedd*
Title: *Vice President*

FLEET BUSINESS CREDIT CORPORATION,

by /s/ *Daniel C. Dupre*

Name: *Daniel C. Dupre*
Title: *Vice President*

THE BANK OF NOVA SCOTIA,

by /s/ *F.C.H. Ashby*

Name: *F.C.H. Ashby*
Title: *Senior Manager Loan Operations*

FIRST UNION NATIONAL BANK OF NORTH CAROLINA

by /s/ *C. Jeffrey Seaton*

Name: *C. Jeffrey Seaton*
Title: *Senior Vice President*

NATIONAL CITY BANK

by /s/ *Barry C. Robinson*

Name: Barry C. Robinson

Title: Vice President

SCHEDULE 1

Commitments

Name of Bank -----	Working Capital Commitment -----	Total Commitment -----	Percentage of Total Commitment -----
Morgan Guaranty Trust Company of New York	\$ 8,572,000	\$ 8,572,000	21.43%
Bank of America, N.A.	\$ 8,000,000	\$ 8,000,000	20.00%
The Bank of New York	\$ 6,572,000	\$ 6,572,000	16.43%
Fleet Business Credit Corporation	\$ 6,000,000	\$ 6,000,000	15.00%
The Bank of Nova Scotia	\$ 4,000,000	\$ 4,000,000	10.00%
First Union National Bank of North Carolina	\$ 4,000,000	\$ 4,000,000	10.00%
National City Bank	\$ 2,856,000 -----	\$ 2,856,000 -----	7.14% -----
TOTAL	\$40,000,000 =====	\$40,000,000 =====	100% =====

EXHIBIT 10 (aa)

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement"), made as of the 1st day of November, 1999 between ESCO ELECTRONICS CORPORATION, a Missouri corporation ("Company" or "ESCO") and Dennis J. Moore, (the "Executive").

WITNESSETH THAT:

WHEREAS, the Executive has been elected by the Board of Directors of the Company to the positions of Chairman, President, and Chief Executive Officer of the Company; and

WHEREAS, the Executive possesses executive skills and experience which the Company believes are of substantial value and importance to the success of the Company's business operations; and

WHEREAS, the Company wishes to retain the benefit of the services of the Executive in connection with the conduct of its business; and

WHEREAS, the Executive is willing to render service on the terms hereinafter set forth;

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

1. **TERM.** This Agreement shall commence effective as of November 1, 1999, and shall continue until November 1, 2003, or such shorter period as may be mutually agreed upon subject to the termination provisions of this Agreement.
2. **DUTIES.** The Executive shall perform such duties normally associated with the office(s) of Chairman, President and CEO and such other duties assigned to him by the Board of Directors of the Company.
3. **SALARY.** The Executive shall be paid an annual salary of not less than Four hundred and twenty-five thousand dollars (\$425,000) during the term of this Agreement, increased in accordance with the normal practices of the Company.
4. **BONUS.** The Executive shall be eligible to receive an annual bonus during the term of this Agreement upon achieving performance goals determined by the Human Resources and Ethics Committee of the Board of Directors of the Company ("Committee") in accordance with and subject to the terms of the Company's Performance Compensation Plan ("PCP"), as in effect from time to time.
5. **OTHER INCENTIVE COMPENSATION.** During the term of this Agreement, the Executive shall be entitled to participate in any stock options, restricted share awards, performance shares and other executive compensation and benefits as the Committee shall, from time to time, determine in its discretion.

6. WELFARE BENEFITS. During the term of this Agreement, the Executive shall be entitled to participate in such medical, dental, life insurance, long-term disability insurance, and other benefits which the Company provides from time to time to other senior executive officers.

7. CLUB MEMBERSHIPS. The Company shall continue to pay the monthly dues and related fees for the Executive's membership in the clubs to which he belongs as of the date hereof.

8. AUTOMOBILE. During the term of this Agreement, the Company shall continue to provide the Executive with an automobile in accordance with Company policy, as in effect from time to time.

9. FINANCIAL PLANNING. During the term of this Agreement, the Company shall provide the Executive with financial planning assistance up to the maximum limits established by Company policy in effect from time to time.

10. TERMINATION OF EMPLOYMENT IN CONNECTION WITH A CHANGE OF CONTROL. In recognition of the unique position of the Executive as the Chairman, President and CEO of the Company, it is hereby acknowledged and agreed that a Change of Control as defined in the Company's Severance Plan (the "Severance Plan") would necessarily result in a "change in the [Executive's] . . . position or responsibilities (including reporting responsibilities)" representing a "reduction in his status, . . . , position or responsibilities as in effect immediately prior thereto" within the meaning of paragraph 3(c)(iii) of the Severance Plan. Consequently, the Executive may give a Notice of Termination in accordance with such Severance Plan based solely on the Change of Control, itself, on or before the effective date of any Change of Control, such notice to be effective on the effective date of the Change of Control. If such notice is given by the Executive, no further compensation or benefits of any kind shall be payable to him under this Agreement, but the Severance Plan Benefits shall be paid in accordance with the terms and conditions of paragraph 4(a) and the other provisions of the Severance Plan.

11. TERMINATION OF EMPLOYMENT PRIOR TO TERMINATION IN CONNECTION WITH A CHANGE OF CONTROL. During the term of this Agreement, the Executive's employment may be terminated for any reason or no reason without cause, by ESCO upon written notice to the Executive. If the Executive is deceased, any sum payable under these termination provisions to the Executive and not otherwise directed by any plan referenced herein shall be paid to Executive's spouse, if any, and if none, to the beneficiary as designated in any records on file with ESCO Electronics Corporation Retirement Plan, or if none, to the Executive's estate.

a. Termination by the Company other than for Cause.

If, during the term of this Agreement, but under circumstances not described in paragraph 10, above, the Executive's employment is terminated by the Company for reasons other than "Cause" (as hereinafter defined), then, provided Executive executes the Standard Severance Agreement and Release then in general use by ESCO for this purpose, the Executive shall receive the following:

1. The Company shall continue to pay the Executive his base salary at the rate in effect at the date of such termination of employment for 36 months following such termination ("Severance Period").
2. As a supplement to the payment of the Executive's base salary rate under subparagraph 1, above, the Company shall also pay the Executive his Average PCP Percentage (as hereinafter defined) for 36 months following such termination. For this purpose, his Average PCP Percentage shall be his average annual percentage (of base salary) under the Company's Performance Compensation Plan for the five consecutive fiscal years immediately preceding the fiscal year in which the termination occurs (disregarding the highest and lowest percentage).
3. At the time of such termination of employment, the Company shall pay the Executive the lump sum actuarial equivalent of a supplemental retirement benefit equal to the difference between (a) the amounts which would have been payable under any tax-qualified defined benefit retirement plan (and any non-qualified supplement to such plan) of ESCO's applicable to the Executive (collectively, the "Retirement Plan") if he had remained employed by the Company at his Base Salary and Average PCP rate for three years after the Date of Separation and (b) the amounts actually payable under the Retirement Plan.
4. If the Executive is eligible for participation in the Company's retiree medical plan, he shall participate therein in accordance with its terms; otherwise upon proper application by Executive and payment of the employee portion of the premium, the Company shall furnish Executive medical continuation in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"); provided that during the period of his eligibility the Executive will pay only the rate which active employees pay for similar coverage for up to 18 months.
5. The Company shall continue to provide the Executive the financial planning services which the Company was providing at the date of such termination, until the federal income tax filing deadline for the Executive's third taxable year following the taxable year during which such termination occurs.

6. The Executive's life insurance and long term disability benefits will terminate in accordance with the plans or policies in effect at the time of such termination of employment.

7. The Executive shall have the right to convert any split dollar life insurance policy on his life which is in effect at the date of such termination into an individual policy with the Executive as the sole owner of such policy, except that the Company shall be entitled to repayment of all premiums paid by the Company on such policy.

8. The Company shall continue to pay the Executive's club membership dues and related fees (which it is paying at the time of such termination) for 36 months following such termination, or until the Executive's death, if he dies during such 36 month period.

9. The Company shall continue to lease for the benefit of the Executive the automobile which is it leasing at the date of such termination, for 36 months following such termination or until the Executive's death if he dies during such 36 month period. Upon the expiration of such 36 month period, if the Executive is still alive, the Company shall purchase such automobile and transfer all right, title and interest in it to the Executive.

10. All outstanding stock options shall become fully vested and exercisable, all restricted shares shall become fully vested, and all awards outstanding under the Company's Performance Share Plan shall be considered fully earned and vested and shall be paid out and/or distributed upon such termination, in accordance with the terms of the plan(s).

11. The Company agrees to provide the Executive with Directors and Officers liability coverage during the Severance Period, and for five years thereafter, for covered actions through the date of Executive's separation from service subject to the insurance carrier's approval of such coverage.

b. Termination by the Company for Cause.

If during the term of this Agreement, the Executive's employment is terminated for "cause" (as hereafter defined), he shall receive his regular salary and benefits through the date of termination. All other benefits shall cease unless specifically otherwise provided by the benefit plan(s).

For purposes of this Agreement, "Cause" shall mean:

1. Executive's willful and continued failure to substantially perform his duties (other than as a result of incapacity due to physical or mental condition), after a written demand for performance is delivered to Executive which specifically identifies the manner in which Executive has not substantially performed his duties; or

2. Executive's disability or incapacity which extends for a period of nine consecutive months and which renders Executive, in the judgement of the Board, substantially unable to perform the services for which he has been employed, or
3. Executive's willful commission of misconduct which is materially injurious to the Company, monetarily or otherwise; provided that any material violation of paragraph 13 of this Agreement by Executive during his employment shall constitute willful misconduct without further proof of injury; or
4. conviction of Executive of a felony, or
5. a determination by the Board, after Executive has been given written notice of the meeting of such Board at which this question will be taken up and has had an opportunity to appear before the Board at such meeting and defend himself, that Executive has committed fraud, embezzlement, theft, or misappropriation against or from the Company; or
6. Executive's material breach of any provision of this Agreement.

For purposes of this paragraph 11, no act or failure to act shall be considered "willful" unless done or omitted to be done without good faith and without a reasonable belief that the act or omission was in the best interest of ESCO.

c. Termination by the Executive for Good Reason.

If, during the term of this Agreement, but under circumstances not described in paragraph 10, above, the Executive terminates his employment for "Good Reasons" (as hereinafter defined), then, in addition to his regular salary and benefits through the date of termination, provided the Executive executes the Standard Severance Agreement and Release then in general use by ESCO for this purpose, the Executive shall receive the same benefits as if the Company had terminated him other than for Cause. "Good Reason" shall mean the occurrence of any one or more of the following events:

1. any failure by the Company to comply with any of the provisions of this Agreement, other than an isolated failure not occurring in bad faith and which is remedied by the Company promptly after receipt of written notice thereof given by the Executive and other than a failure to comply with paragraphs 3 through 9 hereof inclusive solely by reason of a reduction in compensation or benefits that applies to all Senior Management employees;
2. the Company's requiring the Executive to move his residence from the Greater St. Louis, Missouri area;

3. The Company assigning duties to Executive which are, expressly or in practical effect, a material and substantial demotion from or substantial reduction of Executive's present executive and/or managerial responsibilities, whether or not accompanied by a reduction in remuneration, provided the Executive has given not less than 30 days' written notice to the Board of Directors of ESCO; or

4. any purported termination by the Company of the Executive's employment otherwise than pursuant to a Change of Control or for Cause as expressly permitted by this Agreement.

12. CONTINUED EMPLOYMENT NOT GUARANTEED. None of the provisions of this Agreement shall be construed as a guarantee of the Executive's continued employment nor shall they limit the ability of the Board of Directors of the Company to terminate the employment relationship at any time, with or without cause upon at least 30 days' advance written notice to the Executive. None of the provisions of this Agreement shall be construed as a guarantee on the part of the Executive that he will continue to perform services for the Company nor shall they limit the ability of the Executive to resign at any time upon at least 30 days' advance written notice to the Company.

13. CONFIDENTIAL INFORMATION; COMPANY PROPERTY; NONSOLICITATION; COMPANY INTERESTS. By and in consideration of the mutual promises contained herein, and the compensation and benefits to be provided by the Company hereunder, the Executive agrees that:

(a) The Executive shall hold in a fiduciary capacity for the benefit of the Company and will not, during the period of his employment disclose to anyone, directly or indirectly, any trade secret or confidential information regarding the business of ESCO Electronics Corporation or any subsidiary company, including without limitation such information referred to in paragraph 13(d) hereof. Confidential Information for this purpose shall include, but not be limited to, trade secrets, audit information, ethics investigation information, product information, engineering information, manufacturing information, customer lists, employees, Company policies and procedures, bidding and proposal information or strategy, product cost or pricing information, any employee's compensation, benefits or skills and specialties and financial information, all (i) obtained by the Executive during his employment by the Company, and (ii) not otherwise public knowledge (other than because of an unauthorized act by the Executive or another individual). Upon the termination of employment, the Executive will return to the Company all such Confidential Information in his possession which is in written, tangible, electronic, magnetic, or other reproducible form without retaining any copies thereof. After termination of employment, the Executive shall not communicate or divulge such Confidential Information to anyone except

(a) an authorized representative of the Company, or (b) to someone else when compelled by an order or subpoena of a court or

other governmental body after at least two (2) weeks prior written notice to the Company, if possible, and if such written notice is not possible, then with as much written or oral notice as is possible under the circumstances.

(b) Except as expressly provided herein, promptly following the Executive's termination of employment, the Executive shall return to the Company all property of the Company and all copies thereof in the Executive's possession or under his control or to which he has access nor shall he attempt to reproduce or have reproduced any such property, except that the Executive may retain his diaries, Rolodexes, and calendars.

(c) During the period commencing on the date hereof through the Severance Period, the Executive will not solicit or otherwise induce any employee of the Company or any Company Affiliate to leave the employ of the Company or such Company Affiliate or to become associated, whether as an employee, officer, partner, director, consultant or otherwise, with any business organization.

(d) Executive will not, during the period of his employment and for a period of three (3) years from the date he ceases to be employed by the Company directly or indirectly, either for himself or for any other person, divert or take away or attempt to divert or take away (call on or solicit or attempt to call on or solicit) any of the Company's customers or distributors, including, but not limited to, those with whom he became acquainted while employed as an Executive for the Company. The Executive specifically agrees that the three (3) year period is reasonable.

If the Executive fails to comply with any of his undertakings hereunder except as otherwise required by law, no further payments or contracted benefits shall be provided to or in respect of the Executive by the Company pursuant to this Agreement or otherwise. The provisions of paragraph 14 shall not apply to any alleged violations of this paragraph and the Company shall be entitled to obtain temporary and permanent injunctive relief, as well as damages, for any violation of the provisions of this paragraph by Executive.

14. ENFORCEMENT - ARBITRATION. Except as provided in paragraph 13, any controversy or claim arising out of or relating to the application, interpretation or enforcement of this Agreement, and any claim of every nature and description by the Executive against the Company and/or any of its parent, subsidiary, affiliated entities, corporation, partnerships, and their members, officers, directors, managers, partners, employees, fiduciaries, administrators, agents or attorneys or by the Company against the Executive which cannot be settled by negotiation of the parties, including, but not limited to, any and all claims arising subsequent to the date of this Agreement under each of the statutes, common law, contractual and other authorities enumerated in Exhibit A, attached hereto and made a part thereof, shall be settled by final and binding arbitration administered by the

American Arbitration Association ("Association") under its Employment Dispute Resolution Rules (as amended and effective on November 1, 1993, subject to the then-current fees) and judgement on the award rendered by the arbitration may be entered in any court having jurisdiction thereof subject to the following provisions, except as otherwise mutually agreed by the parties with respect to a particular dispute or provision at the time:

- a. If the parties cannot agree upon an arbitrator, a seven-person panel shall be submitted to the parties by the Association. If there is a non-selection of the first such panel, the Association shall submit a second seven-person panel to the parties. If there is still a non-selection, the Association shall then appoint a single arbitrator in accordance with its rules subject to each party's objection for cause, and if the claim involves an alleged statutory violation, the arbitrator shall be an attorney.
- b. The initiating party shall pay one-half of the administrative fee(s) and the defending party shall pay one-half of such fee(s).
- c. Each party may take two (2) depositions and the deposition of any expert as a matter of right, and the parties may engage in additional prehearing discovery only for good cause shown to the arbitrator. Any documents to be introduced in evidence and any documents subpoenaed, as well as a list of all witnesses to be called, shall be submitted to the other party at least thirty (30) days prior to the initial hearing date unless the arbitrator otherwise orders.
- d. Any hearing shall be recorded by a professional reporter. Each party shall have at least thirty (30) days to submit post-hearing briefs, and the hearing shall not be deemed closed until after the date for submission of such briefs. Any extensions are subject to the control of the arbitrator.
- e. The arbitration provisions of this Agreement shall not apply to any claims by the Executive for benefits if they are not payable by the Company or if there is another final and binding dispute resolution in the plan, for Workers' Compensation or unemployment compensation or as excluded in paragraph 13, hereof.
- f. Notice of any claim must be given by the aggrieved party in writing to the other party within six (6) months of the date the aggrieved party first has knowledge of the event, or should have knowledge of the event giving rise to the claim; otherwise, the claim shall be void and deemed waived even if there is a federal or state statute of limitations which would have given more time to pursue the claim. The written notice shall identify and describe the nature of each claim asserted, the statutes, regulation, Agreement provision or other authority on which it is based and a brief statement of the facts supporting such claim. The notice

EXHIBIT A TO EMPLOYMENT AGREEMENT

- o Title VII of the Civil Rights Act of 1964, as amended.
- o Age Discrimination in Employment Act, as amended (including the Older Workers Benefit Protection Act).
- o The Civil Rights Acts of 1866, 1870 and 1871.
- o The Civil Rights Act of 1991.
- o Fair Labor Standards Acts, as amended, (including Walsh-Healey, Davis-Bacon, and Service Contracts Acts) and any state labor standards acts.
- o Occupational Safety and Health Act
- o Employee Polygraph Protection Act
- o Worker Adjustment and Retraining Notification Act
- o Family and Medical Leave Act
- o The United States and Missouri Constitutions.
- o National Labor Relations Act, as amended.
- o Employee Retirement Income Security Act, as amended.
- o Americans with Disabilities Act.
- o Family and Medical Leave Act.
- o Missouri Human Rights Act.
- o Missouri Service Letter Statute.
- o Missouri Final Pay Act
- o All other common law and federal, state and local civil rights acts, acts regulating any term, condition, or privilege of employment, acts regulating the employment or reemployment of veterans or privacy rights, and all other regulations, orders and executive orders relating to any term, condition or privilege of employment.
- o This Agreement and all other contractual rights
- o Benefits payable by the Company and for which there is not another final and binding dispute resolution procedure provided in the plan, after exhaustion of any other such procedure.

EXHIBIT 10 (bb)

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement"), made as of the 3rd day of November, 1999, between ESCO ELECTRONICS CORPORATION, a Missouri corporation ("Company" or "ESCO") and Charles J. Kretschmer, (the "Executive"),

WITNESSETH THAT:

WHEREAS, the Executive possesses executive skills and experience which the Company believes are of substantial value and importance to the success of the Company's business operations; and

WHEREAS, the Company wishes to retain the benefit of the services of the Executive in connection with the conduct of its business; and

WHEREAS, the Executive is willing to render service on the terms hereinafter set forth;

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

1. **TERM.** This Agreement shall commence effective as of November 3, 1999, and shall continue until November 3, 2002, or such shorter period as may be mutually agreed upon, subject to the termination provisions of this Agreement.
2. **DUTIES.** The Executive shall perform such duties normally associated with the office(s) of Vice President and Chief Financial Officer and such other duties assigned to him by the CEO of the Company.
3. **SALARY.** The Executive shall be paid an annual salary of not less than One Hundred and Twenty Thousand Dollars (\$120,000) during the term of this Agreement, increased in accordance with the normal practices of the Company.
4. **BONUS.** The Executive shall be eligible to receive an annual bonus during the term of this Agreement upon achieving performance goals determined by the Human Resources and Ethics Committee of the Board of Directors of the Company ("Committee") in accordance with and subject to the terms of the Company's Performance Compensation Plan ("PCP") for senior officers, as in effect from time to time.
5. **OTHER INCENTIVE COMPENSATION.** During the term of this Agreement, the Executive shall be entitled to participate in any stock options, restricted share awards, performance shares and other executive compensation and benefits as the Committee shall, from time to time determine in its discretion.
6. **WELFARE BENEFITS.** During the term of this Agreement, the Executive shall be entitled to participate in such medical, dental, life insurance, long-term disability

insurance, and other benefits which the Company provides from time to time to other senior executive officers.

7. EXECUTIVE PERQUISITES. The Executive's perquisites, if any, including but not limited to, automobile (leased or allowance), club membership, and telephone, shall continue for the length of salary continuation provided in section 9, at their current level of payment, including any associated fees or reimbursement.

8. TERMINATION OF EMPLOYMENT IN CONNECTION WITH A CHANGE OF CONTROL. If, during the term of this Agreement, the Executive's employment is terminated in connection with a Change of Control under circumstances which would cause the benefits described in the Company's Severance Plan (the "Severance Plan") to become payable to the Executive (the "Severance Plan Benefits"), no further compensation or benefits of any kind shall be payable under this Agreement but the Severance Plan Benefits shall be paid in accordance with the terms and conditions of the Severance Plan. Capitalized terms not defined herein are defined in the Severance Plan adopted August 10, 1995 by ESCO Electronics Corporation Board of Directors.

9. TERMINATION OF EMPLOYMENT PRIOR TO TERMINATION IN CONNECTION WITH A CHANGE OF CONTROL.

During the term of this Agreement, the Executive's employment may be terminated for any reason or no reason without cause, by ESCO upon written notice to the Executive. If the Executive is deceased, any sum payable under these termination provisions to the Executive and not otherwise directed by any plan referenced herein shall be paid to Executive's spouse, if any, and if none, to the beneficiary as designated in any records on file with the ESCO Electronics Corporation Retirement Plan, or if none to the Executive's estate.

A. TERMINATION BY THE COMPANY OTHER THAN FOR CAUSE.

If, during the term of this Agreement, but under circumstances not described in paragraph 8, above, the Executive's employment is terminated by the Company for reasons other than "Cause" (as hereinafter defined), then, provided Executive executes the Standard Severance Agreement and Release then in general use by ESCO for this purpose, the Executive shall receive the following :

(1) The Company shall continue to pay the Executive his base salary at the rate in effect at the date of such termination of employment for 12 months following such termination ("Severance Period").

(2) As a supplement to the payment of the Executive's base salary rate under subparagraph a, above, the Company shall also pay the Executive his PCP Percentage (as hereinafter defined) for 12 months following such termination. For this purpose, his PCP Percentage shall be no less than his annual percentage (of

base salary) under the Company's Performance Compensation Plan in which the Executive participates, for the last fiscal year prior to the termination.

(3) Upon proper application by Executive and payment of the employee portion of the premium, the Company shall furnish Executive medical continuation in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"); provided that during the period of his eligibility the Executive will pay only the rate which active employees pay for similar coverage for up to 6 months.

(4) The Company shall continue to provide the Executive the financial planning services which the Company was providing at the date of such termination, until the federal income tax filing deadline for the Executive's taxable year following the taxable year during which such termination occurs.

(5) The Executive's life insurance and long term disability benefits will terminate in accordance with the plans or policies in effect at the time of such termination of employment.

(6) All outstanding stock options shall become fully vested and exercisable, and all earned awards outstanding under the Company's Performance Share Plan shall be considered vested and shall be paid out and/or distributed upon such termination, subject to and in accordance with the terms of the plan(s).

(7) If the Executive is not fully vested in his accrued benefit under the ESCO Electronics Corporation Retirement Plan ("Retirement Plan") the Company shall pay the Executive the lump sum actuarial equivalent of his accrued benefit under the Retirement Plan, calculated using the same actuarial assumptions as are used in calculating whether small lump sum benefits become payable under the Retirement Plan.

(8) The Company shall make available executive outplacement assistance which it determines to be appropriate for Executive.

B. TERMINATION BY THE COMPANY FOR CAUSE.

If, during the term of this Agreement, the Executive's employment is terminated for "Cause" (as hereafter defined), he shall receive his regular salary and benefits through the date of termination. All other benefits shall cease unless specifically otherwise provided by the benefit plan(s).

For purposes of this Agreement, "Cause" shall mean:

(1) Executive's willful and continued failure to substantially perform his duties (other than as a result of incapacity due to physical or mental condition), after a written demand for performance is delivered to Executive which specifically identifies the manner in which Executive has not substantially performed his duties; or

(2) Executive's disability or incapacity which extends for a period of nine consecutive months and which renders Executive, in the judgement of the Board, substantially unable to perform the services for which he has been employed, or

(3) Executive's willful commission of misconduct which is materially injurious to the Company, monetarily or otherwise; provided that any material violation of the provisions of paragraph 11 of this Agreement by Executive during his employment shall constitute willful misconduct without further proof of injury; or

(4) conviction of Executive of a felony, or

(5) a determination by the Board, after Executive has been given written notice of the meeting of such Board at which this question will be taken up and has had an opportunity to appear before the Board at such meeting and defend himself, that Executive has committed fraud, embezzlement, theft, or misappropriation against or from the Company; or

(6) Executive's breach of any material provisions of this Agreement.

For purposes of this paragraph 9, no act or failure to act shall be considered "willful" unless done or omitted to be done without good faith and without a reasonable belief that the act or omission was in the best interest of ESCO.

C. TERMINATION BY THE EXECUTIVE FOR GOOD REASON.

If, during the term of this Agreement, but under circumstances not described in paragraph 8, above, the Executive terminates his employment for "Good Reason" (as hereinafter defined), then, in addition to his regular salary and benefits through the date of termination, provided the Executive executes the Standard Severance Agreement and Release then in general use by ESCO for this purpose, the Executive shall receive the same compensation and benefits as if the Company had terminated him other than for Cause. "Good Reason" shall mean the occurrence of any one or more of the following events:

(1) any failure by the Company to comply with any of the provisions of this Agreement, other than an isolated failure not occurring in bad faith and which is remedied by the Company promptly after receipt of written notice thereof given by the Executive and other than a failure to comply with paragraphs 3 through 7 hereof inclusive solely by reason of a reduction in compensation or benefits that applies to all Senior Management employees;

(2) the Company's requiring the Executive to move his residence from the Greater St. Louis, Missouri area;

(3) the Company's assigning duties to Executive which are, expressly or in practical effect, a material and substantial demotion from or substantial reduction of Executive's present executive or managerial responsibilities, whether or not accompanied by a reduction in remuneration, provided the Executive has given not less than 30 days' written notice to ESCO's CEO of such demotion or reduction and such demotion or reduction continues after a thirty day period; or

(4) any purported termination by the Company of the Executive 's employment otherwise than pursuant to a Change of Control or for Cause as expressly permitted by this Agreement.

10. CONTINUED EMPLOYMENT NOT GUARANTEED. This Agreement is intended to outline certain salary and benefits payable to Executive under certain specified circumstances and shall not be construed as a guarantee of the Executive's continued employment, nor shall they limit the ability of ESCO's CEO to terminate the employment relationship at any time, with or without cause upon at least 30 days' advance written notice to the Executive. None of the provisions of this Agreement shall be construed as a guarantee on the part of the Executive that he will continue to perform services for the Company, nor shall they limit the ability of the Executive to resign at any time upon at least 30 days' advance written notice to the Company.

11. CONFIDENTIAL INFORMATION; COMPANY PROPERTY; NONSOLICITATION; COMPANY INTERESTS. By and in consideration of the mutual promises contained herein, and the compensation and benefits to be provided by the Company hereunder, the Executive agrees that:

a. The Executive shall hold in a fiduciary capacity for the benefit of the Company and will not, during the period of his employment disclose to anyone, directly or indirectly, any trade secret or confidential information regarding the business of ESCO Electronics Corporation or any subsidiary company, including without limitation such information referred to in paragraph 11(d) hereof. Confidential Information for this purpose shall include, but not be limited to, trade secrets, audit information, ethics investigation information, product information, engineering information, manufacturing information, customer lists, employees, Company policies and procedures, bidding and proposal information or strategy, product cost or pricing information, any employee's compensation, benefits or skills and specialties and financial information, all (i) obtained by the Executive during his employment by the Company, and (ii) not otherwise public knowledge (other than because of an unauthorized act by the Executive or another individual). Upon the termination of employment, the Executive will return to the Company all such Confidential Information in his position which is in written, tangible, electronic,

magnetic, or other reproducible form without retaining any copies thereof. After termination of employment, the Executive shall not communicate or divulge such Confidential Information to anyone except (a) an authorized representative of the Company, or (b) to someone else when compelled by an order or subpoena of a court or other governmental body after at least two (2) weeks prior written notice to the Company, if possible, and if such written notice is not possible, then with as much written or oral notice as is possible under the circumstances.

b. Except as expressly provided herein, promptly following the Executive's termination of employment, the Executive shall return to the Company all property of the Company and all copies thereof in the Executive's possession or under his control or to which he has access nor shall he attempt to reproduce or have reproduced any such property, except that the Executive may retain his diaries, Rolodexes, and calendars.

c. During the period commencing on the date hereof through one

(1) year following the termination of Executive's employment or through the Severance Period, whichever is longer, the Executive will not solicit or otherwise induce any employee of the Company or any Company Affiliate to leave the employ of the Company or such Company Affiliate or to become associated, whether as an employee, officer, partner, director, consultant or otherwise, with any business organization.

d. Executive will not, during the period of his employment and for a period of one (1) year from the date he ceases to be employed by the Company, directly or indirectly, either for himself or for any other person, divert or take away or attempt to divert or take away (call on or solicit or attempt to call on or solicit) any of the Company's customers or distributors, including, but not limited to, those with whom he became acquainted while employed as an Executive for the Company. The Executive specifically agrees that the one (1) year period is reasonable.

If the Executive fails to comply with any of his undertakings hereunder, except as otherwise required by law no further payments or contractual benefits shall be provided to or in respect of the Executive by the Company pursuant to this Agreement or otherwise. The provisions of paragraph 12 shall not apply to any alleged violations of this paragraph, and the Company shall be entitled to obtain temporary and permanent injunctive relief, as well as damages, before any court of competent jurisdiction in St. Louis County for any violation of the provisions of this paragraph by Executive.

12. ENFORCEMENT - ARBITRATION. Except as provided in paragraph 11, any controversy or claim arising out of or relating to the application, interpretation or enforcement of this Agreement, and any claim of every nature and description by the Executive against the Company and/or any of its parent, subsidiary, affiliated entities, corporation, partnerships, and their members, officers, directors,

managers, partners, employees, fiduciaries, administrators, agents or attorneys or by the Company against the Executive which cannot be settled by negotiation of the parties, including, but not limited to, any and all claims arising subsequent to the date of this Agreement under each of the statutes, common law, contractual and other authorities enumerated in Exhibit A, attached hereto and made a part hereof, shall be settled by final and binding arbitration administered by the American Arbitration Association ("Association") under its Employment Dispute Resolution Rules (as amended and effective on November 1, 1993, subject to the then-current fees) and judgement on the award rendered by the arbitration may be entered in any court having jurisdiction thereof subject to the following provisions, except as otherwise mutually agreed by the parties with respect to a particular dispute or provision at the time:

a. If the parties cannot agree upon an arbitrator, a seven-person panel shall be submitted to the parties by the Association. If there is a non-selection of the first such panel, the Association shall submit a second seven-person panel to the parties. If there is still a non-selection, the Association shall then appoint a single arbitrator in accordance with its rules subject to each party's objection for cause, and if the claim involves an alleged statutory violation, the arbitrator shall be an attorney.

b. The initiating party shall pay one-half of the administrative fee(s) and the defending party shall pay one-half of such fee(s).

c. Each party may take two (2) depositions and the deposition of any expert as a matter of right, and the parties may engage in additional prehearing discovery only for good cause shown to the arbitrator. Any documents to be introduced in evidence and any documents subpoenaed, as well as a list of all witnesses to be called, shall be submitted to the other party at least thirty (30) days prior to the initial hearing date unless the arbitrator otherwise orders.

d. Any hearing shall be recorded by a professional reporter. Each party shall have at least thirty (30) days to submit post-hearing briefs, and the hearing shall not be deemed closed until after the date for submission of such briefs. Any extensions are subject to the control of the arbitrator.

e. The arbitration provisions of this Agreement shall not apply to any claims by the Executive for benefits if they are not payable by the Company or if there is another final and binding dispute resolution in the plan, for Workers' Compensation or unemployment compensation or as excluded in paragraph 11, hereof.

f. Notice of any claim must be given by the aggrieved party in writing to the other party within nine (9) months of the date the aggrieved party first has knowledge of the event, or should have knowledge of the event giving rise to the

claim; otherwise, the claim shall be void and deemed waived even if there is a federal or state statute of limitations which would have given more time to pursue the claim. The written notice shall identify and describe the nature of each claim asserted, the statutes, regulation, Agreement provision or other authority on which it is based and a brief statement of the facts supporting such claim. The notice shall be sent by certified mail to the last address supplied in writing by the other party.

g. The arbitrator acting under this Agreement may award damages, and any other relief (s)he deems just and proper which is provided in any statute applicable to the claim, including attorney's fees, arbitration costs and administrative fees, including but not limited to those previously paid by the parties under 12(b). The decision of the arbitrator shall be final and binding on all parties and anyone claiming by or through them. The remedy provided in this paragraph 12 shall be the exclusive remedy for all unsettled disputes between the parties except those specifically excepted in subparagraph (e) above.

13. If ESCO is the Employer, any agreement, representation, or other action of the "Employer" herein shall be ESCO's own obligation, enforceable by Executive against ESCO. If a subsidiary of ESCO is the Employer, then ESCO agrees to cause the Employer to honor any such agreement, representation, or other action of the "Employer" herein; the obligation of Executive, however, shall remain ESCO's and shall be enforceable by Executive only against ESCO or, in accordance with section 14 below, ESCO's successor or assignee.

14. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of the Executive and shall be binding upon the Company, and its successors and assigns.

15. AMENDMENT. This Agreement may be amended by mutual written agreement of the parties. The parties also recognize the possibility of circumstances arising in which this Agreement would be terminated by mutual written agreement without terminating Executive's employment.

16. GOVERNING LAW. This Agreement shall be construed and interpreted in accordance with the laws of the State of Missouri, excluding Missouri's choice of law rules, and except to the extent governed by federal law.

17. CONSULTANT SERVICES. The Company may ask the Executive to serve as a Consultant to the Company from time to time after the Executive's employment ceases. For one year after the Executive's employment terminates, if the Executive is receiving the compensation and benefits outlined in paragraph 8, 9(a) or 9(c), then the Executive agrees to perform up to 80 hours of consulting without additional compensation other than as provided herein and reimbursement of any reasonable out-of-pocket expenses necessarily required or approved in advance.

IN WITNESS WHEREOF, the foregoing Agreement has been executed effective as of 12 November, 1999.

/s/ C.J. Kretschmer

ESCO ELECTRONICS CORPORATION

Date: 11/12/99

By: /s/ V.L. Richey

Title: VP Admin

Date: 12 Nov. 99

EXHIBIT A TO EMPLOYMENT AGREEMENT
(MISSOURI)

- o Title VII of the Civil Rights Act of 1964, as amended.
- o Age Discrimination in Employment Act, as amended (including the Older Workers Benefit Protection Act).
- o The Civil Rights Acts of 1866, 1870 and 1871.
- o The Civil Rights Act of 1991.
- o Fair Labor Standards Acts, as amended, (including Walsh-Healey, Davis-Bacon, and Service Contracts Acts) and any state labor standards acts.
- o Occupational Safety and Health Act
- o Employee Polygraph Protection Act
- o Worker Adjustment and Retraining Notification Act
- o Family and Medical Leave Act
- o The United States and Missouri Constitutions.
- o National Labor Relations Act, as amended.
- o Employee Retirement Income Security Act, as amended.
- o Americans with Disabilities Act.
- o Family and Medical Leave Act.
- o Missouri Human Rights Act.
- o Missouri Service Letter Statute.
- o Missouri Final Pay Act
- o All other common law and federal, state and local civil rights acts, acts regulating any term, condition, or privilege of employment, acts regulating the employment or reemployment of veterans or privacy rights, and all other regulations, orders and executive orders relating to any term, condition or privilege of employment.
- o This Agreement and all other contractual rights
- o Benefits payable by the Company and for which there is not another final and binding dispute resolution procedure provided in the plan, after exhaustion of any other such procedure.

EXHIBIT 10 (cc)

October 12, 1999

Mr. Philip M. Ford
30 Lake Forest Court South
St. Charles, MO 63301

RE: SPECIAL SEPARATION AGREEMENT

Dear Phil:

As we have discussed, your employment relationship with ESCO is being terminated effective December 31, 1999 (referred to in this Agreement as the "Effective Date" or "Separation Date") and you agree to end your active employment on or before that date when requested to do so in writing by ESCO. It is important, therefore, to set forth all of the terms concerning your termination in exchange for your release of all claims and demands of every nature and description (except as expressly preserved below) against ESCO (as defined below) in this Special Separation Agreement and Release ("Agreement"). The following constitutes all of the terms of our Agreement:

1. PARTIES. In this Agreement, "you" means Philip M. Ford together with your heirs, executors, successors, personal representatives, assigns and all other persons and entities claiming by and through you. By "ESCO" we mean to include ESCO Electronics Corporation, the parent corporation and all of its subsidiaries, all of their related corporations, affiliates, including without limitation, partnerships, departments, divisions, organizations, entities, benefit plans, successors and assigns of each and all of them, and their fiduciaries, administrators, partners, directors, officers, agents, attorneys and employees of any of them.

2. SPECIAL SEPARATION COMPENSATION AND BENEFITS.

(a) ESCO shall continue to pay you (or your estate, if you die) your Base Salary at the rate in effect at the date of your Separation from Service ("Separation") for 24 months following such Separation ("Special Benefit Period"). The payments will be deposited into your checking account on each regular employee pay day, commencing with the first regular employee pay day after December 31, 1999. Except as provided herein, ESCO shall have no obligation to make any further payment of compensation or benefits to you (including without limitation, salary, vacation pay, severance pay, or pension contributions) and shall have no obligation to provide you with any fringe benefits (including without limitation life insurance, dental insurance, health and medical insurance, and disability protection).

(b) As a supplement to the payment of the your base salary rate under subparagraph a, above, ESCO shall also pay you (or your estate, if you die) your Average Performance Compensation Plan ("PCP") Percentage (as hereinafter defined) for 24 months following such separation. For this purpose, your Average PCP Percentage shall be your average annual percentage (of base salary) under ESCO's Performance Compensation Plan for the five

consecutive fiscal years immediately preceding the fiscal year in which the Separation occurs (disregarding the highest and lowest percentage).

(c) The lump sum actuarial equivalent of a supplemental retirement benefit equal to the difference between (a) the amounts which would have been payable under any tax-qualified defined benefit retirement plan (and any non-qualified supplement to such plan) of ESCO's applicable to you (collectively, the "Retirement Plan") if you had remained employed by the Company at your Base Salary and Average PCP rate for two years after the Date of Separation and (b) the amounts actually payable under the Retirement Plan.

(d) If you are eligible for participation in the ESCO's retiree medical plan, you shall participate therein in accordance with its terms; otherwise upon proper application by you and payment of the employee portion of the premium, ESCO shall furnish you medical continuation in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"); provided that during the period of your eligibility you will pay only the rate which active employees pay for similar coverage for up to 18 months. ESCO reserves the right to change insurance carriers and benefits for active employees during this period with the possibility of corresponding changes in and effects on your coverage.

(e) ESCO shall continue to provide you the financial planning services which ESCO was providing at the date of such Separation, until the federal income tax filing deadline for your second taxable year following the taxable year during which such Separation occurs.

(f) Your life insurance and long term disability benefits will terminate in accordance with these programs in effect at the time of such Separation.

(g) You shall have the right to convert any split dollar life insurance policy on your life which is in effect at the date of such Separation into an individual policy with you as the sole owner of such policy, except that ESCO shall be entitled to repayment of all premiums paid by ESCO on such policy.

(h) ESCO shall continue to pay your club membership dues and related fees (which it is paying at the time of such Separation) for 24 months following such Separation, or until your death, if you die during such 24 month period.

(i) ESCO shall continue to lease for your benefit, the automobile which it is leasing at the date of such Separation, for 24 months following such separation or until your death if you die during such two year period. Upon the expiration of such 24 month period, if you are still alive, ESCO shall purchase such automobile and transfer all right, title and interest in it to you.

(j) All outstanding stock options shall become fully exercisable, all restricted shares shall become fully vested, and all awards outstanding under the ESCO's Performance Share Plan shall be considered fully earned and vested and shall be paid out upon such Separation, in accordance with the terms of the plan(s).

3. REGULAR AND ENHANCED BENEFITS. Attached to this letter as a Supplement is a schedule listing those regular employment benefits which survive this Agreement and a more detailed explanation of certain enhanced benefits. This Supplement also describes all of the regular (that is, non-severance) compensatory amounts and benefits (the "Regular Benefits") which are accrued and payable to you as of your last day of employment. The amounts, terms, and conditions of those Regular Benefits which are governed by separate written employee benefit plans, programs, or agreements (the "Benefit Plans") are not fully set forth on the Supplement and such Regular Benefits shall continue to be governed by their respective Benefit Plans; the terms of the Benefit Plans are not modified by this Agreement. You acknowledge that under the terms of the Benefit Plans themselves, the termination of your employment may adversely affect some or all of the Regular Benefits referred to in the Supplement, or require you to act promptly to avoid a forfeiture or other adverse result. You acknowledge that you have reviewed the terms of the Benefit Plans and understand how those terms affect your Regular Benefits in connection with your Separation.

4. (a) RELEASE OF ESCO. In consideration of the enhanced Special Separation Payment and Benefits described in Paragraph 2, the other provisions set forth herein, and other good and valuable consideration, except for enforcement of the provisions and benefits specifically and explicitly promised, preserved and set forth in this Agreement, you do hereby voluntarily and knowingly, both individually and as a member of any class, and on behalf of your heirs, personal representatives, successors, and assigns, RELEASE, ACQUIT AND FOREVER DISCHARGE ESCO, its predecessors, successors and assigns, subsidiary and affiliated corporations, firms, partnerships, business entities, and benefit plans, and all of their officers, directors, employees, agents, fiduciaries, administrators, partners, and attorneys, FROM ANY AND ALL DEMANDS, CLAIMS, ACTIONS AND DAMAGES (whether known or unknown, foreseen or unforeseen, direct or indirect, liquidated or not yet fully in being) of every nature and description including, but not limited to, back pay, front pay, statutory liquidated damages, compensatory and punitive damages, liabilities, suits, costs, expenses, and compensation in any form, including attorneys' fees and reinstatement, in any way arising in whole or in part, out of your employment with and the Separation of your employment on or about the Effective Date including, but not limited to, any and all of your rights under any and all federal, state or local statutes, regulations, ordinances, executive orders, policies or under common law or any alleged employee policy, manual, or contract of employment governing ESCO's employment practices, the terms and conditions of your employment, or any benefits of any nature and description allegedly contracted for or promised to you, except only those sums specifically set forth in the foregoing provisions of this Agreement. THE FOREGOING INCLUDES YOUR AGREEMENT TO WAIVE AND RELEASE ANY AND ALL RIGHTS under all federal, state or local constitutional and statutory provisions, orders and regulations prohibiting discrimination based on race, color, sex, age, religion, handicap or disability, national origin, ancestry, citizenship, disabled or other veteran's status or any other type of employment discrimination prohibited by applicable law, including, but not limited to, (a) Title VII of the Civil Rights Act of 1964, as amended, (b) The Age Discrimination in Employment Act, as amended (including the Older Workers Benefit Protection Act), (c) The Civil Rights Acts of 1866, 1870 and 1871, (d) The Civil Rights Act of 1991, (e) The United States, and Missouri Constitutions, (f) The National Labor

Relations Act, (g) The Employee Retirement Income Security Act, (h) The Americans with Disabilities Act, (i) the Family and Medical Leave Act (j) The Employee Retirement Income Security Act, (k) The Missouri Human Rights Act, (l) and Missouri Service Letter Statute, and (m) all other federal, state and local civil rights acts, regulations, orders and executive orders relating to any term, condition or privilege of employment.

(b) You acknowledge and agree that you are fully aware that there are various federal, state and municipal laws which prohibit employment discrimination based on (among other personal characteristics) the following:
race, color, age, sex, pregnancy, marital status, sexual orientation, citizenship, religion, creed, national origin or ancestry, military or national guard service, disability, handicap, mental, psychological record or prior convictions, or entitlement to pension or employee benefits including retirement, pension, stock or other incentive plans, and severance.

(c) You also acknowledge and agree that you fully understand and are aware that there are federal, state and municipal agencies which enforce and administer these laws and ensure their enforcement.

5. COVENANT NOT TO SUE. You agree never to institute, directly or indirectly, any proceeding of any kind against ESCO on account of any matters over which you have waived your rights in this Agreement, and to tender back the Special Separation Pay and extra benefits enumerated in Paragraph 2, together with interest at the rate of Nine Percent (9%) per annum, prior to attempting to bring any such suit.

6. ACKNOWLEDGMENT OF CONSIDERATION TO WHICH YOU WOULD NOT OTHERWISE BE ENTITLED. You acknowledge that under this Agreement you are to receive consideration to which you would not otherwise be entitled, absent this Agreement. This consideration includes the Special Separation Pay and Benefits described in Paragraph 2.

7. You acknowledge that you have been given the opportunity to consult with an attorney regarding this agreement, and that you fully understand this agreement and the effect of signing it.

8. ACCEPTANCE PERIOD. ESCO has informed you and you acknowledge that you have up to forty-five (45) days from the date you receive this Agreement to sign and accept it. It will then not become effective until eight (8) days after you sign it. During the seven (7) days after you execute this document you may revoke your acceptance. If you choose to revoke this Agreement, you must notify ESCO no later than seven (7) days after you sign it. If you do not return the signed Agreement to D. J. Moore within forty-five (45) days after receiving this Agreement, ESCO will consider your non-action a refusal to agree to this Agreement. You will, therefore, not be given the consideration described in Paragraph 2 or any other discretionary payments or benefits provided herein.

9. OWBRA INFORMATION FURNISHED: You acknowledge receipt, on October 12, 1999 of Attachment "A" to this Agreement.

10. CONFIDENTIAL INFORMATION: ESCO PROPERTY, NONSOLICITATION; ESCO INTERESTS. By and in consideration of the benefits to be provided by ESCO hereunder, including the Special Separation pay arrangements set forth herein, you agree that:

(a) You will hold in a fiduciary capacity for the company and you will not, during the period of your employment, disclose to anyone, directly or indirectly, any trade secret or confidential information regarding the business of ESCO Electronics Corporation or any subsidiary company. Confidential Information for this purpose shall include, but not be limited to, trade secrets, audit information, ethics investigation information, product information, engineering information, manufacturing information, customer lists, employees, ESCO policies and procedures, bidding and proposal information or strategy, product cost or pricing information, any employee's compensation, benefits or skills and specialties and financial information (i) obtained by you during your employment by ESCO, and (ii) not otherwise public knowledge (other than because of an unauthorized act by you or another individual). Upon your Separation, you will return to ESCO all such Confidential Information in your possession which is in written, tangible, electronic, magnetic, or other reproducible form without retaining any copies thereof. After Separation of employment, you shall not communicate or divulge such Confidential Information to anyone except (a) an authorized representative of ESCO, or (b) to someone else when compelled by an order or subpoena of a court or other governmental body after at least two (2) weeks prior written notice to ESCO, if possible, and if such written notice is not possible, then with as much written or oral notice as is possible under the circumstances.

(b) Upon your Separation you shall immediately return to ESCO all of ESCO's property, including without limitation, keys, credit cards, files, lists, records, personal computers and related equipment, including computer disks and other data used by you or ESCO in rendering services hereunder, or otherwise, which may be in the Employee's possession or under your control, or to which you have access, without retaining any copies or computerized duplicates thereof.

(c) You will not solicit or otherwise induce any employee of ESCO or any ESCO Affiliate to leave the employ of ESCO or such ESCO Affiliate or to become associated, whether as an employee, officer, partner, director, consultant or otherwise, with any business organization.

(d) You will not, during the period of your employment and for a period of two (2) years from the date you cease to be employed by ESCO, directly or indirectly, either for yourself or for any other person, divert or take away or attempt to divert or take away (call on or solicit or attempt to call on or solicit) any of the Company's customers or distributors, including, but not limited to, those with whom you became acquainted as an employee of ESCO. You specifically agree that the two (2) year period is reasonable in light of the payments and benefits provided by ESCO pursuant to this Contract.

If you fail to comply with any of the undertakings hereunder, no further payments or benefits shall be provided by ESCO.

11. ENTIRE AGREEMENT. You agree that this document contains the final and entire agreement between you and ESCO and that there are no representations, inducements, arrangements or promises made by ESCO to you, or on which you relied in executing this Agreement, either oral or written, other than those expressly contained herein.

12. GOVERNING LAW AND SEVERABILITY. This Agreement has been entered into in the State of Missouri, and the validity, interpretation and legal effect of this Agreement shall be governed by the laws of the State of Missouri; exclusive of its choice of law provisions. Furthermore, any claim, dispute or disagreement which may arise must be resolved within the State of Missouri and in accordance with the substantive laws of the State of Missouri governing contracts entered into and performed within the State. You agree to the jurisdiction of the courts of this State and will use such courts to resolve any dispute not resolved by discussions and negotiation of the parties.

The invalidity or unenforceability of any provision of this Agreement in any circumstance shall not affect the validity or enforceability of any other provision of this Agreement, and except to the extent such provision is invalid or unenforceable, this Agreement shall remain in full force and effect. Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent that such provision is prohibited or unenforceable, without invalidating or affecting the remaining provisions hereof in such jurisdiction, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13. WAIVER OF BREACH. Failure of either party to exercise any of its rights outlined in this Agreement shall not be construed as a Waiver or prevent any party from thereafter enforcing the terms and conditions of the Agreement.

14. TERMINATION OF EMPLOYMENT IN CONNECTION WITH A CHANGE OF CONTROL. Prior to December 31, 1999, while you are actively employed, if your employment is terminated in connection with a Change of Control under circumstances which would cause the benefits described in ESCO's Severance Plan (the "Severance Plan") to become payable to you (the "Severance Plan Benefits"), no further compensation or benefits of any kind shall be payable under this Agreement but the Severance Plan Benefits shall be paid in accordance with the terms of the Severance Plan.

15. NON-ADMISSION. You agree and acknowledge that ESCO does not admit in any way that the terms and conditions of your employment or your Separation from ESCO was in any way improper. Neither this Agreement or the offer this Agreement describes constitutes, nor shall it be construed as, an admission by ESCO of any liability or wrongdoing or any violation of federal, state or local laws, regulation or ordinance and, to the contrary, any such interpretation or inference is specifically denied.

16. DISCLOSURE. You agree that you will not disclose the terms of this Agreement to any person other than your spouse, your attorney, or a financial advisor without the written consent of ESCO. You agree to advise such persons that the terms of this Agreement are confidential. Breach of this provision shall be considered a material breach of this Agreement.

17. BINDING EFFECT. This agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, executors, administrators, legal representatives, successors and assigns.

18. REMEDIES. ESCO and you agree that, if either party breaches any of the provisions of this Agreement, the non-breaching party shall be entitled to all legal and equitable remedies provided by law, including restitution of any monies paid pursuant to this Agreement. Moreover, the party that prevails in any litigation related to a breach of this agreement shall be entitled to be reimbursed by the opposing party for reasonable attorneys' fees, expenses and court costs incurred in such litigation.

19. CONSULTANT SERVICES. ESCO may ask you to serve as a consultant to ESCO from time to time after your employment ceases. Until January 1, 2002, you agree to perform such consulting services as part of this Agreement and recognize that this Agreement covers such consulting services without any additional compensation other than provided herein.

ESCO ELECTRONICS CORPORATION

By: /s/ D.J. Moore

Title: Chairman, President & CEO

Date: October 12, 1999

I ACKNOWLEDGE THAT I HAVE FULLY READ THE ABOVE AND VOLUNTARILY ACCEPT IT WITH KNOWLEDGE THAT IT CONTAINS EVERYTHING I HAVE BEEN PROMISED AND A FULL AND COMPLETE RELEASE OF ALL CLAIMS OF EVERY NATURE AND DESCRIPTION AGAINST ESCO (AS DEFINED IN PARAGRAPH NUMBER 1, ABOVE).

/s/ Philip M. Ford

Philip M. Ford

October 27, 1999

Date

EXHIBIT 10 (dd)

October 18, 1999

Mr. Walter Stark
4 Robin Hill
St. Louis, MO 63124

RE: SEVERANCE AGREEMENT

Dear Walter:

As we have discussed, your employment relationship with ESCO is being terminated effective December 31, 1999 (referred to in this Agreement as the "Effective Date" or "Termination Date") and you agree to end your active employment on or before that date when requested to do so in writing by ESCO. It is important, therefore, to set forth all of the terms concerning your employment termination in exchange for your release of all claims and demands of every nature and description (except as expressly preserved below) against ESCO (as defined below) in this **Severance Agreement and Release ("Agreement")**. The following constitutes all of the terms of our Agreement:

1. PARTIES. In this Agreement, "you" means **Walter Stark** together with **your heirs, executors, successors, personal representatives, assigns and all other persons and entities claiming by and through you**. By "ESCO" we mean to include ESCO Electronics Corporation, the parent corporation and all of its subsidiaries, all of their related corporations, affiliates, including without limitation, partnerships, departments, divisions, organizations, entities, benefit plans, successors and assigns of each and all of them, and their fiduciaries, administrators, partners, directors, officers, agents, attorneys and employees of any of them.

2. SEVERANCE COMPENSATION AND BENEFITS.

(a) ESCO shall continue to pay you (or your estate, if you die) your Base Salary at the rate in effect at the date of such Termination of employment ("Termination") for 24 months following such termination ("Severance Period"). The payments will be deposited into your checking account on each regular employee pay day, commencing with the first regular employee pay day after December 31, 1999. Except as provided herein, ESCO shall have no obligation to make any further payment of compensation or benefits to you (including without limitation, salary, vacation pay, severance pay, or pension contributions) and shall have no obligation to provide you with any fringe benefits (including without limitation life insurance, dental insurance, health and medical insurance, and disability protection).

(b) As a supplement to the payment of the your base salary rate under subparagraph a, above, ESCO shall also pay you (or your estate, if you die) your Average Performance Compensation Plan ("PCP) Percentage for 24 months following such termination. For this purpose, your Average PCP Percentage shall be your average annual percentage (of base salary) under ESCO's Performance Compensation Plan for the five consecutive fiscal years

immediately preceding the fiscal year in which the Termination occurs (disregarding the highest and lowest percentage).

(c) The lump sum actuarial equivalent of a supplemental retirement benefit equal to the difference between (a) the amounts which would have been payable under any tax-qualified defined benefit retirement plan (and any non-qualified supplement to such plan) of ESCO's applicable to you (collectively, the "Retirement Plan") if you had remained employed by the Company at your Base Salary and Average PCP rate for two years after the Date of Termination and (b) the amounts actually payable under the Retirement Plan.

(d) If you are eligible for participation in the ESCO's retiree medical plan, you shall participate therein in accordance with its terms; otherwise upon proper application by you and payment of the employee portion of the premium, ESCO shall furnish you medical continuation in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"); provided that during the period of your eligibility you will pay only the rate which active employees pay for similar coverage for up to 18 months. ESCO reserves the right to change insurance carriers for active employees during this period with the possibility of corresponding changes in and effects on your coverage.

(e) ESCO shall continue to provide you the financial planning services which ESCO was providing at the date of such termination, until the federal income tax filing deadline for your second taxable year following the taxable year during which such Termination occurs.

(f) Your life insurance and long term disability benefits will terminate in accordance with these programs in effect at the time of such termination of employment.

(g) You shall have the right to convert any split dollar life insurance policy on your life which is in effect at the date of such termination into an individual policy with you as the sole owner of such policy, except that ESCO shall be entitled to repayment of all premiums paid by ESCO on such policy.

(h) ESCO shall continue to pay your club membership dues and related fees (which it is paying at the time of such termination) for 24 months following such termination, or until your death, if you die during such 24 months period.

(i) ESCO shall continue the automobile allowance which it is providing you at the date of such Termination, for 24 months following such Termination or until your death if you die during such 24 months period.

(j) All outstanding stock options shall become fully exercisable, all restricted shares shall become fully vested, and all awards outstanding under the ESCO's Performance Share Plan shall be considered fully earned and vested and shall be paid out upon such termination, in accordance with the terms of the plan(s).

(k) ESCO shall provide you with outplacement assistance.

3. REGULAR AND ENHANCED BENEFITS. Attached to this letter as a Supplement is a schedule listing those regular employment benefits which survive this Agreement and a more detailed explanation of certain enhanced benefits. This Supplement also describes all of the regular (that is, non-severance) compensatory amounts and benefits (the "Regular Benefits") which are accrued and payable to you as of your last day of employment. The amounts, terms, and conditions of those Regular Benefits which are governed by separate written employee benefit plans, programs, or agreements (the "Benefit Plans") are not fully set forth on the Supplement and such Regular Benefits shall continue to be governed by their respective Benefit Plans; the terms of the Benefit Plans are not modified by this Agreement. You acknowledge that under the terms of the Benefit Plans themselves, the termination of your employment may adversely affect some or all of the Regular Benefits referred to in the Supplement, or require you to act promptly to avoid a forfeiture or other adverse result. You acknowledge that you have reviewed the terms of the Benefit Plans and understand how those terms affect your Regular Benefits in connection with your Termination.

4. (a) RELEASE OF ESCO. In consideration of the enhanced Severance Payment and benefits described in Paragraph 2, the other provisions set forth herein, and other good and valuable consideration, except for enforcement of the provisions and benefits specifically and explicitly promised, preserved and set forth in this Agreement, you do hereby voluntarily and knowingly, both individually and as a member of any class, and on behalf of your heirs, personal representatives, successors, and assigns, RELEASE, ACQUIT AND FOREVER DISCHARGE ESCO, its predecessors, successors and assigns, subsidiary and affiliated corporations, firms, partnerships, business entities, and benefit plans, and all of their officers, directors, employees, agents, fiduciaries, administrators, partners, and attorneys, FROM ANY AND ALL DEMANDS, CLAIMS, ACTIONS AND DAMAGES (whether known or unknown, foreseen or unforeseen, direct or indirect, liquidated or not yet fully in being) of every nature and description including, but not limited to, back pay, front pay, statutory liquidated damages, compensatory and punitive damages, liabilities, suits, costs, expenses, and compensation in any form, including attorneys' fees and reinstatement, in any way arising in whole or in part, out of your employment with and the termination of your employment on or about the Effective Date including, but not limited to, any and all of your rights under any and all federal, state or local statutes, regulations, ordinances, executive orders, policies or under common law or any alleged employee policy, manual, or contract of employment governing ESCO's employment practices, the terms and conditions of your employment, or any benefits of any nature and description allegedly contracted for or promised to you, except only those sums specifically set forth in the foregoing provisions of this Agreement. THE FOREGOING INCLUDES YOUR AGREEMENT TO WAIVE AND RELEASE ANY AND ALL RIGHTS under all federal, state or local constitutional and statutory provisions, orders and regulations prohibiting discrimination based on race, color, sex, age, religion, handicap or disability, national origin, ancestry, citizenship, disabled or other veteran's status or any other type of employment discrimination prohibited by applicable law, including, but not limited to, (a) Title VII of the Civil Rights Act of 1964, as amended, (b) The Age Discrimination in Employment Act, as amended (including the Older Workers Benefit Protection Act), (c) The Civil Rights Acts of 1866, 1870 and 1871, (d) The Civil Rights Act of 1991, (e) The United States, and Missouri Constitutions, (f) The National Labor Relations Act, (g) The Employee Retirement

Income Security Act, (h) The Americans with Disabilities Act, (i) the Family and Medical Leave Act (j) The Employee Retirement Income Security Act, (k) The Missouri Human Rights Act, (l) and Missouri Service Letter Statute, and (m) all other federal, state and local civil rights acts, regulations, orders and executive orders relating to any term, condition or privilege of employment.

(b) You acknowledge and agree that you are fully aware that there are various federal, state and municipal laws which prohibit employment discrimination based on (among other personal characteristics) the following:
race, color, age, sex, pregnancy, marital status, sexual orientation, citizenship, religion, creed, national origin or ancestry, military or national guard service, disability, handicap, mental, psychological record or prior convictions, or entitlement to pension or employee benefits including retirement, pension, stock or other incentive plans, and severance.

(c) You also acknowledge and agree that you fully understand and are aware that there are federal, state and municipal agencies which enforce and administer these laws and ensure their enforcement.

5. COVENANT NOT TO SUE. You agree never to institute, directly or indirectly, any proceeding of any kind against ESCO on account of any matters over which you have waived your rights in this Agreement, and to tender back the Severance Pay and extra benefits enumerated in Paragraph 2, together with interest at the rate of Nine Percent (9%) per annum, prior to attempting to bring any such suit.

6. ACKNOWLEDGMENT OF CONSIDERATION TO WHICH YOU WOULD NOT OTHERWISE BE ENTITLED. You acknowledge that under this Agreement you are to receive consideration to which you would not otherwise be entitled, absent this Agreement. This consideration includes the Severance Pay and Benefits described in Paragraph 2.

7. You acknowledge that you have been given the opportunity to consult with an attorney regarding this agreement, and that you fully understand this agreement and the effect of signing it.

8. ACCEPTANCE PERIOD. ESCO has informed you and you acknowledge that you have up to forty-five (45) days from the date you receive this Agreement to sign and accept it. It will then not become effective until eight (8) days after you sign it. During the seven (7) days after you execute this document you may revoke your acceptance. If you choose to revoke this Agreement, you must notify ESCO no later than seven (7) days after you sign it. If you do not return the signed Agreement to D. J. Moore within forty-five (45) days after receiving this Agreement, ESCO will consider your non-action a refusal to agree to this Agreement. You will, therefore, not be given the consideration described in Paragraph 2 or any other discretionary payments or benefits provided herein.

9. OWBRA INFORMATION FURNISHED: You acknowledge receipt, on October 18, 1999 of Attachment "A" to this Agreement.

10. CONFIDENTIAL INFORMATION: ESCO PROPERTY, NONSOLICITATION; ESCO INTERESTS. By and in consideration of the benefits to be provided by ESCO hereunder, including the severance arrangements set forth herein, you agree that:

(a) You will hold in a fiduciary capacity for the company and you will not, during the period of your employment, disclose to anyone, directly or indirectly, any trade secret or confidential information regarding the business of ESCO Electronics Corporation or any subsidiary company. Confidential Information for this purpose shall include, but not be limited to, trade secrets, audit information, ethics investigation information, product information, engineering information, manufacturing information, customer lists, employees, ESCO policies and procedures, bidding and proposal information or strategy, product cost or pricing information, any employee's compensation, benefits or skills and specialties and financial information (i) obtained by you during your employment by ESCO, and (ii) not otherwise public knowledge (other than because of an unauthorized act by you or another individual). Upon your Termination, you will return to ESCO all such Confidential Information in your possession which is in written, tangible, electronic, magnetic, or other reproducible form without retaining any copies thereof. After termination of employment, you shall not communicate or divulge such Confidential Information to anyone except (a) an authorized representative of ESCO, or (b) to someone else when compelled by an order or subpoena of a court or other governmental body after at least two (2) weeks prior written notice to ESCO, if possible, and if such written notice is not possible, then with as much written or oral notice as is possible under the circumstances.

(b) Upon your Termination, you shall immediately return to ESCO all of the ESCO's property, including without limitation, keys, credit cards, files, lists, records, personal computers and related equipment, including computer disks and other data used by you or ESCO in rendering services hereunder, or otherwise, which may be in the your possession or under your control, or to which you have access, without retaining any copies or computerized duplicates thereof.

(c) You will not solicit or otherwise induce any employee of ESCO or any ESCO Affiliate to leave the employ of ESCO or such ESCO Affiliate or to become associated, whether as an employee, officer, partner, director, consultant or otherwise, with any business organization.

(d) You will not, during the period of your employment and for a period of two (2) years from the date you cease to be employed by ESCO, directly or indirectly, either for yourself or for any other person, divert or take away or attempt to divert or take away (call on or solicit or attempt to call on or solicit) any of the Company's customers or distributors, including, but not limited to, those with whom you became acquainted as an employee of ESCO. You specifically agree that the two (2) year period is reasonable in light of the payments and benefits provided by ESCO pursuant to this Contract.

If you fail to comply with any of the undertakings hereunder, no further payments or benefits shall be provided by ESCO.

11. ENTIRE AGREEMENT. You agree that this document contains the final and entire agreement between you and ESCO and that there are no representations, inducements, arrangements or promises made by ESCO to you, or on which you relied in executing this Agreement, either oral or written, other than those expressly contained herein.

12. GOVERNING LAW AND SEVERABILITY. This Agreement has been entered into in the State of Missouri, and the validity, interpretation and legal effect of this Agreement shall be governed by the laws of the State of Missouri; exclusive of its choice of law provisions. Furthermore, any claim, dispute or disagreement which may arise must be resolved within the State of Missouri and in accordance with the substantive laws of the State of Missouri governing contracts entered into and performed within the State. You agree to the jurisdiction of the courts of this State and will use such courts to resolve any dispute not resolved by discussions and negotiation of the parties.

The invalidity or unenforceability of any provision of this Agreement in any circumstance shall not affect the validity or enforceability of any other provision of this Agreement, and except to the extent such provision is invalid or unenforceable, this Agreement shall remain in full force and effect. Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent that such provision is prohibited or unenforceable, without invalidating or affecting the remaining provisions hereof in such jurisdiction, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13. WAIVER OF BREACH. Failure of either party to exercise any of its rights outlined in this Agreement shall not be construed as a Waiver or prevent any party from thereafter enforcing the terms and conditions of the Agreement.

14. CHANGE OF CONTROL PRIOR TO DECEMBER 31, 1999. In the event that there is a Change of Control as defined in ESCO's Severance Plan (the "Severance Plan") prior to December 31, 1999, this Agreement shall become null and void and the employees rights and obligations shall be governed by the terms of the Severance Plan.

15. NON-ADMISSION. You agree and acknowledge that ESCO does not admit in any way that the terms and conditions of your employment or your separation from ESCO was in any way improper. Neither this Agreement or the offer this Agreement describes constitutes, nor shall it be construed as, an admission by ESCO of any liability or wrongdoing or any violation of federal, state or local laws, regulation or ordinance and, to the contrary, any such interpretation or inference is specifically denied.

16. DISCLOSURE. You agree that you will not disclose the terms of this Agreement to any person other than your spouse, your attorney, or a financial advisor without the written

consent of ESCO. You agree to advise such persons that the terms of this Agreement are confidential. Breach of this provision shall be considered a material breach of this agreement.

17. BINDING EFFECT. This agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, executors, administrators, legal representatives, successors and assigns.

18. REMEDIES. ESCO and you agree that, if either party breaches any of the provisions of this Agreement, the non-breaching party shall be entitled to all legal and equitable remedies provided by law, including restitution of any monies paid pursuant to this Agreement. Moreover, the party that prevails in any litigation related to a breach of this agreement shall be entitled to be reimbursed by the opposing party for reasonable attorneys' fees, expenses and court costs incurred in such litigation.

19. CONSULTANT SERVICES. ESCO may ask you to serve as a consultant to ESCO from time to time after your employment ceases. Until January 1, 2002, you agree to perform such consulting services as part of this Agreement and recognize that this Agreement covers such consulting services without any additional compensation other than provided herein.

ESCO ELECTRONICS CORPORATION

By: /s/ Dennis J. Moore

Title: Chairman, President & CEO

Date: October 18, 1999

I ACKNOWLEDGE THAT I HAVE FULLY READ THE ABOVE AND VOLUNTARILY ACCEPT IT WITH KNOWLEDGE THAT IT CONTAINS EVERYTHING I HAVE BEEN PROMISED AND A FULL AND COMPLETE RELEASE OF ALL CLAIMS OF EVERY NATURE AND DESCRIPTION AGAINST ESCO (AS DEFINED IN PARAGRAPH NUMBER 1, ABOVE).

/s/ Walter Stark

Walter Stark

10/18/99

Date

10/12/99

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

Introduction

ESCO Electronics Corporation (ESCO, the Company) is engaged in the design, manufacture, sale and support of engineered products used principally in filtration/fluid flow applications, electromagnetic compatibility (EMC) testing, and electric utility communications and control systems. Filtration/fluid flow and EMC testing products are supplied to a broad base of industrial and commercial customers worldwide. At the present time, electric utility communication systems are marketed primarily to customers in North America.

ESCO operates principally in four business segments:

Filtration/Fluid Flow, Test, Communications and Other. As part of Management's strategy to narrow the Company's product/market focus, ESCO's last major defense business, Systems & Electronics Inc. was sold on September 30, 1999 to Engineered Support Systems, Inc. (ESSI) for \$85 million in cash, less working capital adjustments.

In conjunction with this divestiture, the Company has taken a number of additional actions at September 30, 1999 to further sharpen its focus on its primary served markets. ESCO is actively pursuing the sale of its microwave antenna business, which was operated as a part of Rantec Microwave & Electronics, Inc. Other actions include abandoning the active pursuit of certain business areas, exiting non-core, underperforming businesses, and restructuring the corporate overhead of the Company. Specifically, the Company plans to discontinue its investment in High Pressure Air Reducing Quiet Manifolds for surface ships (Filtration/Fluid Flow segment) as well as its Vehicle Location Systems (Other segment), and has reduced ongoing operating costs. These items are discussed in detail on page 12.

The actions outlined above, taken collectively, mark a significant milestone in the transformation of ESCO from a primarily defense-oriented business to a supplier of engineered products used primarily in industrial and commercial applications.

The ongoing business segments are comprised of the following operating entities;

- Filtration/Fluid Flow: PTI Technologies Inc. (PTI) and Filtertek Inc. (Filtertek);
- Test: EMC Test Systems, L.P. (ETS),
- Communications: Distribution Control Systems, Inc. (DCSI),
- Other: Rantec Microwave & Electronics, Inc. (Rantec) and Comtrak Technologies, L.L.C. (Comtrak); the ongoing portions of this segment will include Rantec Power Systems and Comtrak Securvision(R) product lines;
- Systems & Electronics Inc. (SEI) is included as a divested business. ESCO enters the new millennium with meaningful growth prospects in its primary served markets, a substantially lower risk profile, more focused and with considerable financial flexibility. Management will deliver shareholder value through internal growth, selective acquisitions and share repurchase when warranted.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reconciliation of adjusted net income

The following table is not intended to present net earnings as defined within generally accepted accounting principles (GAAP), and is presented for informational purposes only.

The table provides a reconciliation between the reported financials and what Management believes the 1999 operating results may have been after removing certain nonrecurring items and assuming that all of the actions taken during 1999 to reorient the business were complete at the beginning of the period. Management believes the estimated 1999 adjusted operating results provide a meaningful presentation for purposes of analyzing ESCO's ongoing financial performance. The estimated adjusted net earnings may not be indicative of future performance.

(Dollars in millions, rounded)	1999 As Reported	Elimination of SEI (a)	Adjusting Items	1999 As Adjusted
Net sales	\$416.1	172.8	-	\$243.3
Cost of sales	317.7	139.6	(2.0) (b)	176.1
Other charges related to cost of sales	3.9	-	(3.9) (c)	-
SG&A expenses	74.4	21.6	.8 (d)	53.6
Interest expense (income)	6.5	.6	(8.2) (e)	(2.3)
Other, net	4.9	.3	(.3) (c)	4.3
Restructuring charges	5.1	-	(5.1) (c)	-
Gain on sale of SEI	(59.9)	-	59.9 (c)	-
Total costs and expenses	352.6	162.1	41.2	231.7
Earnings before tax	63.5	10.7	(41.2)	11.6
Income tax expense	13.0	3.7	(5.4) (f)	3.9
Net earnings before accounting change	50.5	7.0	(35.8)	7.7
Cumulative effect of accounting change, net of tax	(25.0)	-	25.0 (c)	-
Net earnings	\$25.5	7.0	(10.8)	\$ 7.7
Diluted EPS	\$2.02			\$.61

(a) Represents the operations of SEI which were included in the 1999 GAAP reported results of operations.

(b) Represents the 1999 operating results of Rantec's microwave antenna business which is being offered for sale. Fiscal 1999 net sales included \$7.5 million related to Rantec's microwave antenna business.

(c) Represents the elimination of the nonrecurring items: includes the gain related to the divestiture of SEI, other charges related to the strategic initiatives described below, and the accounting change (SOP 98-5) adopted in the 1999 first quarter.

(d) Represents the net amount of the remaining corporate office operating expenses after the divestiture of SEI. This amount reflects a \$4.2 million cost reduction from the \$5 million amount recorded in 1999 and previously absorbed by the operations of SEI.

(e) Represents the estimated net interest impact of the SEI transaction proceeds and the cash impact of the other cost saving actions noted above, assuming that they occurred at the beginning of the period. The amount noted assumes all outstanding debt was repaid and the excess cash proceeds were invested with a 6% yield.

(f) Represents the amount necessary to reflect the adjusted effective tax rate at 33%, which represents the Company's estimated 1999 effective tax rate excluding the nonrecurring items.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other charges related to cost of sales, restructuring charges and gain on sale of SEI

During the fourth quarter of fiscal 1999, the Company implemented a major portion of its strategic operating plan. Its previously communicated strategy was to transform the Company from a primarily defense-oriented business to a supplier of engineered products used in industrial and commercial applications. As a result of implementing Management's strategic actions, the Company recognized certain nonrecurring items in its fourth quarter results of operations.

These 1999 defined actions resulted in \$3.9 million of other charges related to cost of sales and \$5.1 million of restructuring charges. In addition, the Company recorded a gain on the sale of SEI of \$59.9 million.

The 1999 other charges related to cost of sales represent the write-off of inventory related to the abandonment of the High Pressure Air Reducing Quiet Manifolds for surface ships (\$2.2 million) and the Vehicle Location Systems (\$.6 million) business areas. Additionally, the Company wrote down the Rantec microwave antenna product line inventory (\$1.1 million) to net realizable value as a result of that business area being offered for sale.

The 1999 restructuring charges are comprised of the following:

costs related to exiting the microwave antenna business area (\$1.1 million); a write-off of the license agreement (\$1.8 million) related to the abandonment of the Vehicle Location System business; and certain personnel separation costs (\$2.2 million).

The gain on sale of SEI of \$59.9 million is calculated as: The gross proceeds of \$85 million; less SEI's net book value of \$30.6 million; less working capital adjustments of \$4.0 million; less transaction related expenses of \$4.9 million; plus the \$14.4 million curtailment gain related to pension and retiree medical liabilities transferred to the buyer.

The \$2.5 million of other charges related to cost of sales in 1998 related to the settlement of a long-standing contract dispute on the original M1000 tank transporter program at SEI.

The other charges related to cost of sales noted above are included in the calculation of gross profit discussed below.

Results of operations

NET SALES

Net sales of \$416.1 million in 1999 increased \$51 million (14%) over net sales of \$365.1 million in 1998. SEI, which is included in the Divested Business segment, accounted for \$38 million of the increase. Filtration/Fluid Flow, Test and Communications all had increased sales volume in 1999 while the Other segment had a \$7 million decrease in sales.

Acquisitions, which occurred in 1998, also contributed to sales growth in 1999.

Net sales of \$365.1 million in 1998 decreased \$13.4 million (3.5%) from net sales of \$378.5 million in 1997, primarily due to a decrease in sales at SEI, which was divested on September 30, 1999. Filtration/Fluid Flow

Net sales of \$168.9 million in 1999 were \$10.6 million (6.7%) higher than net sales of \$158.3 million in 1998. The increase was primarily the result of new product introductions at Filtertek and PTI and increases in microfiltration sales at PTI. Blood filters for medical applications, increased shipments of disposable water filter cartridges, and automotive transmission sump filters and fuel filters all contributed to the growth at Filtertek. PTI's microfiltration businesses contributed approximately \$8.3 million of additional sales in 1999. PTI's aerospace and industrial products experienced some softening in demand during 1999.

Net sales of \$158.3 million in 1998 increased \$34.8 million (28.2%) from net sales of \$123.5 million in 1997, primarily due to the February 1997 acquisition of Filtertek being included in the 1998 results for the entire year. PTI's sales increased in 1998 over 1997 due to increased aerospace and industrial shipments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

TEST

Net sales of \$34.9 million in 1999 were \$4.3 million (14.1%) higher than net sales of \$30.6 million in 1998. The 1998 sales increased \$4.5 million over the \$26.1 million in sales recorded in 1997. The increase in 1999 over 1998, as well as the 1998 increase over 1997 primarily is the result of additional EMC test chamber business at ETS. The 1999 sales were significantly impacted by additional revenue relating to the \$20 million contract awarded in 1999 by General Motors to design and build an electromagnetic compatibility (EMC) test complex in Milford, Michigan. This \$20 million contract is expected to be completed late in 2001 or early in 2002.

COMMUNICATIONS

Net sales of \$24.7 million in 1999 were \$5.7 million (30.0%) higher than net sales of \$19.0 million in 1998. The 1998 sales increased \$5.6 million over the \$13.4 million in sales recorded in 1997. The increase in 1999 over 1998, as well as the 1998 increase over 1997, primarily is the result of increased shipments to the Puerto Rico Electric Power Authority (PREPA). The current contract with PREPA to provide Automatic Meter Reading (AMR) systems using proprietary power line communications technology is valued at more than \$50 million over a three-year period. At September 30, 1999, \$33.2 million of the PREPA contract remains in backlog.

OTHER

Sales were \$14.8 million, \$22.2 million and \$20.9 million in 1999, 1998 and 1997, respectively. The decrease in 1999 results from lower sales at Rantec.

ORDERS AND BACKLOG

Firm order backlog, excluding SEI, was \$142.9 million at September 30, 1999, compared to \$139.3 million at September 30, 1998. Orders, excluding SEI, totaling \$247.5 million were received in 1999, compared with \$264.2 million in 1998. The decrease is the result of the 1998 amount having included the large PREPA contract (\$50 million) received by DCSI.

GROSS PROFIT

The Company computes gross profit as: net sales, less cost of sales, less other charges related to cost of sales. The gross profit margin is the gross profit divided into net sales, expressed as a percentage.

The gross profit margin was 22.7%, 26.1% and 24.2% in 1999, 1998 and 1997, respectively. The decrease in 1999 versus 1998 is primarily the result of operating inefficiencies experienced at Rantec. The power supply business at Rantec experienced cost growth on certain development contracts in 1999, which also contributed to the lower gross margin. Most of these development contracts are now in production, and the related cost problems have been recognized.

The 1998 gross margin increase over 1997 is the result of a more favorable sales mix. The 1997 gross margin was negatively impacted by the operations of SEI, which was sold on September 30, 1999.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (SG&A) for 1999 were \$74.4 million, or 17.8% of net sales, compared with \$68.3 million, or 18.7% of net sales, for 1998. The 1999 SG&A included \$3.2 million of additional expenses related to Advanced Membrane Technology, Inc. (consolidated within PTI) and Euroshield OY (consolidated within ETS) which were acquired in 1998 and are included in 1999 for the entire year versus a partial year in 1998. The percentage decrease in 1999 is the result of higher sales throughout the Company available to cover certain fixed costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SG&A for 1998 was \$68.3 million, or 18.7% of net sales, compared with \$64.1 million, or 16.9% of net sales, for 1997. The 1998 SG&A expenses included \$4.6 million of additional expense at Filtertek as a result of their operations being included in 1998 for the entire year versus eight months of 1997. The percentage increase in 1998 is the result of lower sales.

OPERATING PROFIT

Operating Profit of \$14.9 million in 1999 decreased from \$26.9 million in 1998. SEI, which is included in the Divested Business segment, accounted for \$0.8 million of the decrease.

Filtration/Fluid Flow, Communications, and Test all had increased operating profit in 1999 while the Other segment had a \$13.4 million decrease in operating profit. The 1999 amounts were adversely affected by the \$3.9 million of other charges related to cost of sales, and the \$5.1 million of restructuring charges.

Operating profit of \$26.9 million in 1998 decreased \$0.7 million from operating profit of \$27.6 million in 1997 primarily due to the 1997 other charges related to cost of sales at SEI, which was divested on September 30, 1999.

FILTRATION/FLUID FLOW

Operating profit of \$11.9 million in 1999 was \$1.4 million (13.3%) higher than operating profit of \$10.5 million in 1998. The filtration/fluid flow amounts include the \$2.2 million of nonrecurring charges related to the abandonment of the surface ship manifolds mentioned earlier. The recurring increase was primarily the result of new product introductions at Filtertek and PTI and increases in microfiltration profitability at PTI. Blood filters for medical applications, increased shipments of disposable water filter cartridges, and automotive transmission sump filters and fuel filters, all contributed to the growth in profitability at Filtertek. PTI's aerospace and industrial products experienced a slight decline during 1999 due to weaker demand in these markets.

Operating profit of \$10.5 million in 1998 increased \$0.9 million (9.4%) from operating profit of \$9.6 million in 1997, primarily as a result of PTI's increased operating profit in 1998 due to increased aerospace and industrial contributions.

TEST

Operating profit of \$4.0 million in 1999 was \$1.1 million (37.9%) higher than operating profit of \$2.9 million in 1998. The 1998 operating profit increased \$0.3 million over the \$2.6 million of operating profit recorded in 1997. The increase in 1999 over 1998, as well as the 1998 increase over 1997, primarily is the result of additional EMC test chamber business at ETS, and an overall improvement in sales mix.

COMMUNICATIONS

Operating profit of \$4.0 million in 1999 was \$2.0 million (100%) higher than operating profit of \$2.0 million in 1998. The 1998 operating profit increased \$1.0 million over the \$1.0 million in operating profit recorded in 1997. The increase in 1999 over 1998, as well as the 1998 increase over 1997, primarily is the result of increased sales leverage.

OTHER

Operating profit was (\$13.2) million, \$0.3 million and \$0.6 million in 1999, 1998 and 1997, respectively. The decrease in 1999 is the result of the nonrecurring charges related to Rantec's microwave antenna product line which is being offered for sale, Comtrak's nonrecurring charges and significant cost growth on certain development programs at Rantec power systems as mentioned above.

INTEREST EXPENSE

Interest expense decreased to \$6.5 million in 1999 from \$7.7 million in 1998, primarily as a result of lower outstanding average borrowings throughout 1999. A significant amount of the outstanding borrowings in 1999 and 1998 were incurred with the February 1997 acquisition of Filtertek. The timing of operating cash flows throughout 1999 also decreased the average outstanding borrowings.

Interest expense increased to \$7.7 million in 1998 from \$5.2 million in 1997, primarily as a result of higher outstanding average borrowings throughout 1998. The timing of operating cash flows throughout 1998 increased the average outstanding borrowings.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OTHER COST AND EXPENSES, NET

Other costs and expenses, net, increased in 1999 to \$4.9 million from \$2.9 million in 1998. The increase is primarily due to the impact in 1998 of PTI receiving a \$1.6 million lease surrender payment (recorded as other miscellaneous income) for agreeing to vacate its current manufacturing facility in Newbury Park, California. PTI received \$1.6 million immediately upon signing the agreement and will receive an additional \$2.9 million on December 31, 2000, or earlier, upon vacating the property. PTI has begun its relocation to new facilities in Oxnard, California. This relocation should be completed by September 30, 2000. The remainder of other costs and expenses, net, increased due to additional goodwill amortization related to the 1998 acquisitions discussed above.

Other costs and expenses, net, decreased in 1998 to \$2.9 million from \$4.5 million in 1997, primarily due to the \$1.6 million PTI lease surrender payment recorded in 1998. The remainder of other costs and expenses, net, were consistent in both periods presented.

INCOME TAX EXPENSE

Income tax expense of \$13.0 million for 1999 reflects deferred tax expense of \$11.6 million and foreign, state and local tax expense of \$1.4 million. Income tax expense of \$5.1 million for 1998 reflects deferred tax expense of \$6.1 million and foreign, state and local tax benefits of (\$1) million. Income tax expense of \$6.1 million for 1997 reflects current Federal tax expense of \$.2 million, deferred tax expense of \$4.8 million and foreign, state and local taxes of \$1 million.

Based on the Company's historical pretax income, together with the projection of future taxable income based upon its shift in strategic direction, Management believes it is more likely than not that the Company will realize the benefits of the net deferred tax asset existing at September 30, 1999. In order to realize the aforementioned net deferred tax asset before valuation allowance, the Company will need to generate future taxable income of approximately \$221 million, of which \$146 million is required to be realized prior to the expiration of the net operating loss (NOL) carryforward, of which \$33 million will expire in 2006; \$6 million will expire in 2007; \$23 million will expire in 2009; \$38 million will expire in 2010; \$4 million will expire in 2011; \$7 million will expire in 2018; and \$35 million will expire in 2019. The net operating loss carryforward may be used to reduce future income tax cash payments.

As a result of the sale of SEI in 1999, the Company will utilize approximately \$35 million of the \$77 million capital loss carryforward available from the sale of Hazeltine in 1996. At September 30, 1999, the Company had a capital loss carryforward for tax purposes of approximately \$42 million. This capital loss carryforward may be used as a reduction of future capital gains recognized by the Company, at which time the Company may realize additional tax benefits. Any unused capital loss carryforward will expire in 2001.

The Company's deferred tax valuation allowance of \$32.5 million at September 30, 1999, was comprised of \$17.7 million, which represents Management's best estimate of the portion of the deferred tax asset associated with temporary differences and NOLs which may not be realized, and a full valuation reserve in the amount of \$14.8 million for the portion of the deferred tax asset represented by the capital loss carryforward.

The effective tax rate in 1999 was 20.5% compared with 30.9% in 1998. The 1999 effective tax rate was favorably impacted by the utilization of the capital loss carryforward resulting from the divestiture of SEI. An analysis of the effective tax rates for 1999, 1998 and 1997 is included in the notes to consolidated financial statements.

CHANGE IN ACCOUNTING PRINCIPLE

In April 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities." This SOP is applicable to all non-governmental entities and provides guidance on accounting for start-up activities, including precontract start-up costs and organization costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company had previously accounted for these costs under the guidance provided by SOP 81-1, "Accounting for Performance of Construction-type Contracts." SOP 98-5 amended SOP 81-1 by requiring precontract, start-up and organization costs to be expensed as incurred.

The Company adopted the provisions of SOP 98-5 in the first quarter of fiscal year 1999 which resulted in a non-cash, after-tax charge of approximately \$25 million, which was recognized as a cumulative effect of an accounting change.

The after-tax charge related to precontract, start-up and organization costs incurred in anticipation of specific future contract awards which were based on specific customer identified requirements. The after-tax charge is comprised of the following programs: the Tunner 60K aircraft cargo loader at SEI (\$17.2 million), the Automatic Vehicle Location System at the Comtrak division of SEI (\$2 million), the advanced video surveillance system (Securvision(R)) at Comtrak (\$2 million), the Seawolf (U.S. Navy attack submarine) valve and manifold ship set program at VACCO Industries (\$1.9 million), and other minor programs which aggregated to \$1.9 million.

Capital resources & liquidity

With the sale of SEI at September 30, 1999, the Company continued to successfully transition its business base from defense to commercial, and thereby dramatically lowered the operating risk profile of the Company. The significant working capital commitments previously required by the defense business of SEI no longer exist throughout the balance of ESCO.

Net cash provided by operating activities increased in 1999 to \$25.9 million from \$20.3 million in 1998. The increase in 1999 is driven by the improvement in cash flow from working capital, primarily the lower investment in inventory.

Net cash provided by operating activities was \$20.3 million in 1998, compared to \$25.3 million in 1997 due to SEI related operating cash requirements.

In 1999, 1998 and 1997, capital expenditures of \$8.3 million, \$12.9 million and \$10.5 million, respectively, included manufacturing equipment at Filtertek and PTI. Capital expenditures related to SEI were \$1.1 million, \$1.5 million and \$2.4 million in 1999, 1998 and 1997, respectively. There were no commitments outstanding that were considered material for capital expenditures at September 30, 1999.

At September 30, 1999, the Company had available a net operating loss (NOL) carryforward for tax purposes of approximately \$146 million. This NOL will expire beginning in year 2006 and ending in year 2019, and will be used to reduce future Federal income tax cash payments.

ACQUISITIONS/DIVESTITURES

On September 30, 1999, the Company sold SEI to Engineered Support Systems, Inc. for \$85 million in cash, less working capital adjustments.

On July 1, 1998, the Company completed the acquisition of Advanced Membrane Technology, Inc. (AMT) headquartered in San Diego, California. AMT was consolidated within PTI and was made a part of a newly formed business, PTI Advanced Filtration Inc., which designs and manufactures several types of filtration membrane and provides filtration systems for a variety of applications in the process industries. The transaction involved the purchase of AMT common stock for approximately \$7 million in cash plus approximately 450,000 shares of ESCO common stock valued at \$8.6 million. The cash portion was financed with the Company's bank credit facility.

On December 31, 1997, the Company completed the purchase of Euroshield OY for consideration which included \$3.5 million in cash. Euroshield, located in Eura, Finland, designs and manufactures high quality radio frequency (RF) shielding products used in the electromagnetic compatibility (EMC) industry.

On February 7, 1997, the Company completed the acquisition of the filtration and the thermoform packaging businesses (Filtertek) of Schawk, Inc. The fiscal 1997 transaction involved the purchase of assets and stock of certain subsidiary corporations

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Schawk, Inc. for \$92 million in cash plus working capital adjustments. The purchase was financed with cash and borrowings from the Company's bank credit facility. Filtrertek is a leader in the manufacture of plastic insert injection molded filter assemblies.

BANK CREDIT FACILITY

The Company's \$122 million bank credit facility was amended on August 30, 1999 to allow for the sale of SEI. Upon receipt of the proceeds from the sale of SEI, the outstanding principal amount of the Term Loan and a portion of the outstanding revolving credit facility were to be repaid. On September 30, 1999, the Company received the gross proceeds of \$85 million from the sale of SEI and on October 1, 1999, the Company repaid all outstanding debt.

Subsequent to the sale of SEI and the repayment of all outstanding debt on October 1, 1999, the credit facility was adjusted to a \$40 million revolving credit facility. The revolving credit facility (subject to borrowing base asset limitations) is available for direct borrowings and/or the issuance of letters of credit. The maturity of the bank credit facility is September 30, 2000. These credit facilities are provided by a group of banks, led by Morgan Guaranty Trust Company of New York.

Cash flow from operations and borrowings under the bank credit facility are expected to provide adequate resources to meet the Company's capital requirements and operational needs for the foreseeable future.

All of the Company's debt, prior to full repayment on October 1, 1999, was priced at a percentage over LIBOR. The Company had reduced this risk through a rate swap agreement that provided a cap on LIBOR of 7% on \$50 million of the long-term debt through September 30, 1998, reducing to \$40 million through September 30, 1999.

SHARE REPURCHASE

In 1996, the Company authorized an open market share repurchase program for up to two million shares of common stock over a period ended September 30, 1998. Approximately 180,000 shares were repurchased throughout that two-year period. During 1999, the Company authorized an additional open market repurchase program of up to 1.3 million shares, which is subject to market conditions and other factors and will cover a period ending September 29, 2000. Approximately 177,000 shares were repurchased in 1999. Subsequent to September 30, 1999, and with a portion of the available proceeds of the SEI sale, the Company is continuing its share repurchase program.

OTHER

Management believes that, for the periods presented, inflation has not had a material effect on the Company's results of operations.

The Company is currently involved in various stages of investigation, remediation and litigation relating to environmental matters. Based on current information available, Management does not believe the aggregate costs involved in the resolution of these matters will have a material adverse effect on the Company's operating results, capital expenditures or competitive position.

Year 2000 issues

The Year 2000 ("Y2K") issue refers to the inability of a date-sensitive computer program to recognize a two-digit date field designated as "00" as the year 2000. Mistaking "00" for 1900 could result in a system failure or miscalculations causing disruptions to operations including manufacturing, a temporary inability to process transactions, send invoices, or engage in other normal business activities. This is a significant issue for most, if not all, companies with far-reaching implications, some of which cannot be anticipated or predicted with any degree of certainty.

STATE OF READINESS

The Company has designated a corporate Y2K coordination team comprised of various senior management members. Each operating unit has identified a Y2K coordinator responsible for planning and monitoring their Y2K program and reporting on a regular basis to the corporate team. The Company has assessed the magnitude of its Y2K issue and has already determined the requirements necessary to modify or replace certain portions of its software and hardware so that its computer systems, including information technology and non-information technology, would be able to function properly beyond December 31, 1999. This required replacement, reprogramming or other remedial action. The Company has communicated with its suppliers and customers to determine the extent of the Company's vulnerability to the failure of third parties to remediate their own Y2K issue. In conjunction with this assessment, the Company has finalized its action plans to address the Y2K issue, including contingencies to address unforeseen problems. The Company has used both internal and external resources to complete Y2K reprogramming, software replacement and testing.

COSTS TO ADDRESS THE Y2K ISSUE The Company's plans anticipate completion of the Y2K remedial work by December 31, 1999. To date, the Company has incurred approximately \$3 million related to the Y2K remedial work, of which \$2 million is related to SEI. The total expected costs of the project and the date on which the Company plans to complete the Y2K remediation work are based on Management's best estimates, which were derived from numerous assumptions about future events, including the availability of certain resources, third-party modification plans, and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause material differences include, but are not limited to, the availability and cost of personnel trained in this area and the ability to identify and correct all relevant computer codes.

RISK ANALYSIS

Like most large business entities, the Company is dependent upon its own internal technology and relies upon timely performance by its business partners. The Company's Y2K program is designed to identify and minimize its Y2K risk and includes significant testing and refinement of its internal systems to ensure, to the extent feasible, all systems will function before and after the Year 2000. The Company is continually updating its understanding of the Y2K risks posed to its business partners based on information obtained through surveys and interviews. This review was completed in calendar year 1999.

CONTINGENCY PLANS

Following its risk analysis as described above, the Company's Y2K program includes a contingency planning phase in which appropriate plans were made to attempt to minimize disruption to the Company's operations in the event of a Y2K failure. The Company has formulated plans to handle a variety of failure scenarios, including failures of its internal systems, as well as failures of significant business partners. The level of planning required is a function of the risks ascertained through the Company's investigating efforts. The Company completed its contingency planning across the enterprise in calendar year 1999.

While no assurances can be given, because of the Company's extensive efforts to formulate and carry-out an effective Y2K program, the Company believes its program should effectively minimize disruption to the Company's operations due to the Year 2000 issue.

Market risk analysis

MARKET RISK EXPOSURE

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. Based on the current holdings of fixed-rate notes, the exposure to interest rate risk is not material. The Company is subject to foreign currency exchange rate risk relating to receipts from customers and payments to suppliers in foreign currencies. The Company hedges foreign currency commitments by purchasing foreign currency forward contracts. The Company does not consider the market risk exposure relating to currency exchange to be material.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended September 30, (Dollars in thousands, except per share amounts)	1999	1998	1997
Net sales	\$416,102	365,083	378,524
Costs and expenses:			
Cost of sales	317,681	267,332	286,790
Other charges related to cost of sales	3,927	2,500	-
Selling, general and administrative expenses	74,429	68,326	64,142
Interest expense	6,460	7,703	5,220
Other, net	4,871	2,875	4,522
Restructuring charges	5,145	-	-
Gain on sale of SEI	(59,867)	-	-
Total costs and expenses	352,646	348,736	360,674
Earnings before income tax	63,456	16,347	17,850
Income tax expense	13,001	5,051	6,053
Net earnings before accounting change	\$50,455	11,296	11,797
Cumulative effect of accounting change, net of tax	(25,009)	-	-
Net earnings	\$25,446	11,296	11,797
Earnings per share:			
Net earnings before accounting change:			
Basic	\$ 4.09	.94	1.00
Diluted	4.00	.90	.96
Net earnings:			
Basic	\$ 2.06	.94	1.00
Diluted	2.02	.90	.96
Average common shares outstanding:			
Basic	12,332	12,015	11,805
Diluted	12,614	12,550	12,274

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Years ended September 30, (Dollars in thousands)	1999	1998

ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$87,709	4,241
Accounts receivable, less allowance for doubtful accounts of \$574 and \$664 in 1999 and 1998, respectively	38,669	51,530
Costs and estimated earnings on long-term contracts, less progress billings of \$11,778 and \$51,529 in 1999 and 1998, respectively	4,019	26,995
Inventories	39,590	81,579
Other current assets	3,559	2,776
	-----	-----
Total current assets	173,546	167,121
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	10,582	14,318
Buildings and leasehold improvements	29,007	47,940
Machinery and equipment	65,988	83,356
Construction in progress	4,186	4,718
	-----	-----
Less accumulated depreciation and amortization	109,763	150,332
	38,445	52,323
	-----	-----
Net property, plant and equipment	71,318	98,009
Excess of cost over net assets of purchased businesses, less accumulated amortization of \$6,631 and \$4,557 in 1999 and 1998, respectively	68,950	72,512
Deferred tax assets	44,783	44,740
Other assets	19,788	26,920
	-----	-----
	\$378,385	409,302
	-----	-----

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Years ended September 30, (Dollars in thousands)	1999	1998

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings and current maturities of long-term debt	\$20,598	30,111
Accounts payable	26,339	39,908
Advance payments on long-term contracts, less costs incurred of \$479 and \$5,046 in 1999 and 1998, respectively	682	11,442
Accrued expenses	30,598	25,346
	-----	-----
Total current liabilities	78,217	106,807
	-----	-----
Other liabilities	9,583	28,339
Long-term debt	41,896	50,077
	-----	-----
Total liabilities	129,696	185,223
	-----	-----
Commitments and contingencies	-	-
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$.01 per share, authorized 10,000,000 shares	-	-
Common stock, par value \$.01 per share, authorized 50,000,000 shares; Issued 12,782,663 and 12,641,664 shares in 1999 and 1998, respectively	128	126
Additional paid-in capital	201,719	200,913
Retained earnings since elimination of deficit at September 30, 1993	52,723	27,277
Accumulated other comprehensive loss	(1,870)	(1,740)
	-----	-----
	252,700	226,576
Less treasury stock, at cost (404,625 and 234,025 common shares in 1999 and 1998, respectively)	(4,011)	(2,497)
	-----	-----
Total shareholders' equity	248,689	224,079
	-----	-----
	\$378,385	409,302
	-----	-----

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

Years ended September 30, (in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other	Treasury Stock	Total
	Shares	Amount			Comprehensive Income (Loss)		
Balance, September 30, 1996	12,415	\$124	192,967	4,184	(1,762)	(4,380)	191,133
Comprehensive income:							
Net earnings	-	-	-	11,797	-	-	11,797
Translation adjustments	-	-	-	-	89	-	89
Minimum pension liability, net	-	-	-	-	1,688	-	1,688
Comprehensive income	-	-	-	-	-	-	13,574
Stock options and stock compensation plans	63	1	1,696	-	-	45	1,742
Purchases into treasury	-	-	-	-	-	(1,486)	(1,486)
Balance, September 30, 1997	12,478	125	194,663	15,981	15	(5,821)	204,963
Comprehensive income:							
Net earnings	-	-	-	11,296	-	-	11,296
Translation adjustments	-	-	-	-	324	-	324
Minimum pension liability, net	-	-	-	-	(2,079)	-	(2,079)
Comprehensive income	-	-	-	-	-	-	9,541
Stock options and stock compensation plans	164	1	1,137	-	-	405	1,543
Acquisitions of business	-	-	5,113	-	-	3,496	8,609
Purchases into treasury	-	-	-	-	-	(577)	(577)
Balance, September 30, 1998	12,642	126	200,913	27,277	(1,740)	(2,497)	224,079
Comprehensive income:							
Net earnings	-	-	-	25,446	-	-	25,446
Translation adjustments	-	-	-	-	(2,390)	-	(2,390)
Minimum pension liability, net	-	-	-	-	2,260	-	2,260
Comprehensive income	-	-	-	-	-	-	25,316
Stock options and stock compensation plans	141	2	806	-	-	48	856
Purchases into treasury	-	-	-	-	-	(1,562)	(1,562)
Balance, September 30, 1999	12,783	\$128	201,719	52,723	(1,870)	(4,011)	248,689

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended September 30, (Dollars in thousands)	1999	1998	1997

Cash flows from operating activities:			
Net earnings	\$25,446	11,296	11,797
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	17,021	17,460	14,423
Changes in operating working capital	11,271	(8,594)	(2,666)
Write-off of assets related to accounting change, net of tax	25,009	-	-
Gain on sale of SEI	(59,867)	-	-
Effect of deferred taxes on tax provision	11,560	6,121	4,816
Other	(4,550)	(5,971)	(3,033)
	-----	-----	-----
Net cash provided by operating activities	25,890	20,312	25,337
	-----	-----	-----
Cash flows from investing activities:			
Capital expenditures	(8,291)	(12,896)	(10,526)
Divestiture (acquisition) of businesses	85,000	(11,323)	(93,200)
	-----	-----	-----
Net cash provided (used) by investing activities	76,709	(24,219)	(103,726)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from long-term debt	96	7,000	60,000
Principal payments on long-term debt	(8,297)	(7,504)	(15,675)
Net increase (decrease) in short-term borrowings	(9,494)	3,476	18,500
Purchases of common stock into treasury	(1,562)	(695)	(1,486)
Other	126	53	659
	-----	-----	-----
Net cash provided (used) by financing activities	(19,131)	2,330	61,998
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	83,468	(1,577)	(16,391)
Cash and cash equivalents at beginning of year	4,241	5,818	22,209
	-----	-----	-----
Cash and cash equivalents at end of year	\$87,709	4,241	5,818

Changes in operating working capital:			
Accounts receivable, net	\$ 5,150	(1,745)	(2,997)
Costs and estimated earnings on long-term contracts, net	12,891	7,358	(3,048)
Inventories	(9,230)	(17,737)	18,618
Other current assets	(1,402)	143	734
Accounts payable	734	245	(8,522)
Advance payments on long-term contracts, net	(6,821)	5,094	(1,988)
Accrued expenses	9,949	(1,952)	(5,463)
	-----	-----	-----
	\$11,271	(8,594)	(2,666)

Supplemental cash flow information:			
Interest paid	\$6,579	7,521	4,981
Income taxes paid	254	353	720
	-----	-----	-----

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. Summary of significant accounting policies

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of ESCO Electronics Corporation (ESCO) and its wholly owned subsidiaries (the Company). All significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the 1999 presentation.

(B) BASIS OF PRESENTATION

Effective September 30, 1990, Emerson Electric Co. (Emerson) transferred the stock of certain of its subsidiaries, primarily related to its government and defense business, to ESCO and distributed all of the issued and outstanding ESCO common stock to Emerson shareholders (the spin-off). Effective September 30, 1993, the Company implemented an accounting readjustment in accordance with the accounting provisions applicable to a "quasi-reorganization" which restated assets and liabilities to fair values and eliminated the deficit in retained earnings. Fair values of the Company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. The estimated fair value of each class of financial instruments approximated the related carrying value at September 30, 1999 and 1998.

(C) NATURE OF OPERATIONS

The Company is engaged in the design, manufacture, sale and support of engineered products used principally in filtration/fluid flow applications, electromagnetic compatibility (EMC) testing, and electric utility communications and control systems. Filtration/fluid flow and EMC testing products are supplied to a broad base of industrial and commercial customers worldwide. At the present time, electric utility communication systems are marketed primarily to customers in North America. The Company operates in four principal industry segments: Filtration/Fluid Flow, Test, Communications and Other.

(D) USE OF ESTIMATES AND BUSINESS RISKS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions, including estimates of anticipated contract costs and revenues utilized in the earnings process, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(E) ACCOUNTING CHANGE

During the first quarter of 1999, the Company adopted Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities." Precontract costs were incurred by the Company and capitalized under the previous guidance provided by SOP 81-1, "Accounting for Performance of Construction-type Contracts." As a result of adopting SOP 98-5 in 1999, the Company expensed these costs which were recognized as a cumulative effect of an accounting change.

(F) REVENUE RECOGNITION

Revenue is recognized on commercial sales when products are shipped or when services are performed. Revenue on production contracts is recorded when specific contract terms are fulfilled, usually by delivery or acceptance (the units of production or delivery methods). Revenues from cost reimbursement contracts are recorded as costs are incurred, plus fees earned. Revenue under long-term contracts for which units of production or delivery are inappropriate measures of performance is recognized on the percentage-of-completion method based upon incurred costs compared to total estimated costs under the contract, or are based upon equivalent units produced. Revenue under engineering contracts is generally recognized as milestones are attained.

(G) CASH AND CASH EQUIVALENTS

Cash equivalents include temporary investments that are readily convertible into cash, such as certificates of deposit, commercial paper and treasury bills with original maturities of three months or less.

(H) COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS

Costs and estimated earnings on long-term contracts represent unbilled revenues, including accrued profits on long-term contracts accounted for under the percentage-of-completion method, net of progress billings.

(I) INVENTORIES

Inventories are carried at the lower of cost (first-in, first-out) or market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories under long-term contracts reflect accumulated production costs, factory overhead, initial tooling and other related costs less the portion of such costs charged to cost of sales and any progress payments received. In accordance with industry practice, costs incurred on contracts in progress include amounts relating to programs having production cycles longer than one year, and a portion thereof will not be realized within one year.

(J) **PROPERTY, PLANT AND EQUIPMENT** Property, plant and equipment are recorded at cost. Depreciation and amortization are computed primarily on a straight-line basis over the estimated useful lives of the assets: buildings, 10-40 years; machinery and equipment, 5-10 years; and office furniture and equipment, 5-10 years. Leasehold improvements are amortized over the remaining term of the applicable lease or their estimated useful lives, whichever is shorter.

(K) **EXCESS OF COST OVER NET ASSETS OF PURCHASED BUSINESSES** Assets and liabilities related to business combinations accounted for as purchase transactions are recorded at their respective fair values. Excess of cost over the fair value of net assets purchased (goodwill) is amortized on a straight-line basis over the periods estimated to be benefited, not exceeding 40 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the asset balance over its remaining life can be recovered through undiscounted future operating cash flows.

(L) **INCOME TAXES** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(M) **RESEARCH AND DEVELOPMENT COSTS** Company-sponsored research and development costs include research and development and bid and proposal efforts related to the Company's products and services. Company-sponsored product development costs are charged to expense when incurred. Customer-sponsored research and development costs incurred pursuant to contracts are accounted for similar to other program costs.

(N) **FOREIGN CURRENCY TRANSLATION** The financial statements of the Company's foreign operations are translated into U.S. dollars in accordance with SFAS No. 52, (SFAS 52) "Foreign Currency Translation." The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income.

(O) EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options and performance shares by using the treasury stock method. The number of shares used in the calculation of earnings per share for each year presented is as follows:

(In thousands)	1999	1998	1997
Weighted Average Shares Outstanding - Basic	12,332	12,015	11,805
Dilutive Options and Performance Shares	282	535	469
Adjusted Shares - Diluted	12,614	12,550	12,274

Options to purchase 176,000, 84,000 and 94,800 shares of common stock at per share prices of \$11.44 - \$19.22 in 1999, \$18.00 - \$19.22 in 1998 and \$12.38 in 1997 were outstanding during the years ended September 30, 1999, 1998 and 1997, respectively, but were not included in the respective computations of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in 2007, 2008, and 2009. Approximately 190,000, 166,000 and 338,000 performance shares were outstanding but unearned at September 30, 1999, 1998 and 1997, respectively, and therefore, were not included in the respective computations of diluted EPS. The unearned performance shares expire in 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(P) STOCK-BASED COMPENSATION

The Company measures its compensation cost of equity instruments issued under employee compensation plans under the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations.

(Q) COMPREHENSIVE INCOME (LOSS)

On October 1, 1998, ESCO adopted SFAS No. 130 (SFAS 130), "Reporting Comprehensive Income." SFAS 130 established standards for reporting and presentation of comprehensive income or loss and its components in a full set of financial statements. This Statement requires the Company to report separately the translation adjustments of SFAS 52 defined above, and changes to the minimum pension liability as components of comprehensive income or loss. Management has chosen to disclose the requirements of this Statement within the consolidated statements of shareholders' equity.

2. Acquisitions/divestitures (unaudited) On September 30, 1999, the Company completed the sale of its Systems & Electronics Inc. (SEI) subsidiary to Engineered Support Systems, Inc. (ESSI). The Company sold 100% of the common stock of SEI for \$85 million in cash, less working capital adjustments, resulting in a \$59.9 million gain recorded in the 1999 results of operations. Certain assets and liabilities of SEI were retained by the Company, including the net operating loss carryforward.

Included in the consolidated statements of operations are the operating results of SEI prior to its divestiture as follows:

(Dollars in millions)	1999	1998	1997
Net sales	\$172.8	135.0	194.6
Cost of sales	139.6	98.7	157.3
Selling, general and administrative expenses	21.6	22.6	23.5
Other costs and expenses, net	.9	1.1	.7
	-----	-----	-----
Earnings before income taxes	\$ 10.7	12.6	13.1

On July 1, 1998, the Company completed the acquisition of Advanced Membrane Technology, Inc. (AMT) and consolidated AMT within PTI. The transaction involved the purchase of AMT common stock for approximately \$7 million in cash plus approximately 450,000 shares of ESCO common stock valued at \$8.6 million.

On December 31, 1997, the Company completed the purchase of Euroshield OY for consideration which included \$3.5 million in cash.

On February 7, 1997, the Company completed the acquisition of the filtration and the thermoform packaging businesses (Filtertek) of Schawk, Inc. The transaction involved the purchase of assets and stock of certain subsidiary corporations of Schawk, Inc. for \$92 million in cash plus working capital adjustments.

All of the Company's acquisitions have been accounted for using the purchase method of accounting and accordingly, the respective purchase prices were allocated to the assets (including intangible assets) acquired and liabilities assumed based on estimated fair values at the date of acquisition. The excess cost of the acquisitions over the estimated fair value of the net assets acquired is being amortized on a straight-line basis over periods ranging from 15-40 years, depending on Management's assessment of its useful life. The financial results from these acquisitions have been included in the Company's financial statements from the date of acquisition.

3. Accounts receivable Accounts receivable consist of the following at September 30, 1999 and 1998:

(Dollars in thousands)	1999	1998
Commercial	\$35,287	38,371
U. S. Government and prime contractors	3,382	10,801
Other	-	2,358
	-----	-----
Total	\$38,669	51,530

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The decrease in U. S. Government and prime contractors accounts receivable is primarily due to the sale of SEI at September 30, 1999. The 1998 accounts receivable included \$11.2 million related to SEI.

4. Inventories

Inventories consist of the following at September 30, 1999 and 1998:

(Dollars in thousands)	1999	1998
Finished goods	\$11,387	9,491
Work in process - including long-term contracts	14,517	54,754
Raw materials	13,686	17,334
	-----	-----
Total	\$39,590	81,579

During 1999, approximately \$38.5 million of inventories were written off as a result of the adoption of SOP 98-5. The 1998 inventory balance included \$31.3 million of inventories related to SEI.

5. Property, plant and equipment

Depreciation and amortization of property, plant and equipment for the years ended September 30, 1999, 1998 and 1997 were \$13,598,000, \$14,589,000 and \$12,441,000, respectively.

The Company leases certain real property, equipment and machinery under noncancelable operating leases. Rental expense under these operating leases for the years ended September 30, 1999, 1998 and 1997 amounted to \$6,324,000, \$5,675,000 and \$4,502,000, respectively. Future aggregate minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 1999 are:

(Dollars in thousands)	Years ending September 30:	
	2000	\$3,189
	2001	2,744
	2002	1,716
	2003	1,259
	2004 and thereafter	613

	Total	\$9,521

6. Income tax expense

The principal components of income tax expense for the years ended September 30, 1999, 1998 and 1997 consist of:

(Dollars in thousands)	1999	1998	1997
Federal:			
Current	\$ -	-	223
Deferred	11,560	6,121	4,816
State, local and foreign	1,441	(1,070)	1,014
	-----	-----	-----
Total	\$13,001	5,051	6,053

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The actual income tax expense for the years ended September 30, 1999, 1998 and 1997 differs from the expected tax expense for those years (computed by applying the U.S. Federal statutory rate) as follows:

	1999	1998	1997
Federal corporate statutory rate	35.0%	35.0%	35.0%
Change in tax valuation allowance:			
Utilization of capital loss carryforward	(19.3)	-	-
Other	5.9	3.0	(6.8)
Income taxes, net of Federal benefits:			
State and local	1.1	(2.8)	2.7
Foreign	1.2	.4	(1.1)
Other, net	(3.4)	(4.7)	4.1
	-----	-----	-----
Effective income tax rate	20.5%	30.9%	33.9%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 1999, 1998 and 1997 are presented below:

(Dollars in thousands)	1999	1998	1997
Deferred tax assets:			
Inventories, long-term contract accounting, contract cost reserves and others	\$4,169	4,283	10,008
Pension and other postretirement benefits	3,576	10,177	10,134
Net operating loss carryforward	51,097	38,989	36,608
Capital loss carryforward	14,824	27,074	27,074
Other compensation-related costs and other cost accruals	5,262	6,703	6,254
	-----	-----	-----
Total deferred tax assets	78,928	87,226	90,078
Deferred tax liabilities:			
Plant and equipment, depreciation methods and acquisition asset allocations	(1,671)	(1,516)	(2,005)
	-----	-----	-----
Net deferred tax asset before valuation allowance	77,257	85,710	88,073
Less valuation allowance	(32,474)	(40,970)	(39,563)
	-----	-----	-----
Net deferred tax assets	\$44,783	44,740	48,510

Management believes it is more likely than not that with its projections of future taxable income, its shift in strategic direction, and after consideration of the valuation allowance, the Company will generate sufficient taxable income to realize the benefits of the net deferred tax assets existing at September 30, 1999.

In order to fully realize the net deferred tax assets before valuation allowance existing at September 30, 1999, the Company will need to generate future taxable income of approximately \$221 million of which \$146 million is required to be realized prior to the expiration of the net operating loss (NOL) carryforward, of which \$33 million will expire in 2006; \$6 million will expire in 2007; \$23 million will expire in 2009; \$38 million will expire in 2010; \$4 million will expire in 2011; \$7 million will expire in 2018; and \$35 million will expire in 2019. Also, the Company will need to generate future capital gains of approximately \$42 million prior to 2001, at which time the capital loss carryforward will expire.

During the year ended September 30, 1999, and as a result of the Company utilizing \$35 million of capital loss carryforward relating to the sale of SEI, the Company decreased its deferred tax valuation allowance to \$32.5 million. A full valuation allowance of \$14.8 million is being maintained against the deferred tax asset associated with the capital loss. The remaining balance of \$17.7 million represents Management's best estimate of the portion of deferred tax asset associated with temporary differences and NOLs which may not be realized. As a result of adopting SOP 98-5, in 1999, the Company recorded a tax benefit of \$13.5 million. Additionally, a net deferred tax asset of \$3.7 million was recorded after taking into effect the sale of SEI.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Debt Long-term debt consists of the following at September 30, 1999 and 1998:

(Dollars in thousands)	1999	1998
Term loan	\$49,000	57,000
Other debt	988	1,188
Less current maturities	(8,092)	(8,111)
Long-term debt	\$41,896	50,077

The Company's \$122 million bank credit facility was amended on August 30, 1999 to allow for the sale of SEI. Upon receipt of the proceeds from the sale of SEI, the outstanding principal amount of the Term Loan and a portion of the outstanding revolving credit facility were to be repaid. On September 30, 1999, the Company received the gross proceeds of \$85 million from the sale of SEI and on October 1, 1999, the Company repaid all outstanding debt. Subsequent to the sale of SEI the credit facility was adjusted to a \$40 million revolving credit facility. The revolving credit facility (subject to borrowing base asset limitations) is available for direct borrowings and/or the issuance of letters of credit. The maturity of the bank credit facility is September 30, 2000. These credit facilities are provided by a group of banks, led by Morgan Guaranty Trust Company of New York.

The amended credit facility requires, as determined by certain financial ratios, a commitment fee ranging from 5/16% to 7/16% per annum on the unused portion. The terms of the credit facility provide that interest on borrowings may be calculated at a spread over the London Interbank Offered Rate (LIBOR), or certificate of deposit rates for various maturities, or based on the prime rate, at the Company's election. Substantially all of the assets of the Company are pledged under the credit facility. The most restrictive financial covenants of the credit facility include minimum interest coverage, limitations on leverage and minimum tangible net worth. Dividends may not exceed 25% of the Company's consolidated net earnings.

During 1999 and 1998, the maximum aggregate short-term borrowings at any month-end were \$42.0 million and \$55.5 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were \$32.5 million and \$39.8 million, respectively; and the weighted average interest rates were 6.3% in 1999 and 6.9% in both 1998 and 1997. The letters of credit issued and outstanding under the credit facility totaled \$4.8 million and \$2.7 million at September 30, 1998 and 1997, respectively. Borrowings under the revolving credit facility were \$12.5 million at September 30, 1999.

8. Capital stock The 12,782,663 and 12,641,664 common shares as presented in the accompanying consolidated balance sheets at September 30, 1999 and 1998 represent the actual number of shares issued at the respective dates. The Company held 404,625 and 234,025 common shares in treasury at September 30, 1999 and 1998, respectively. Pursuant to a Deposit and Trust Agreement (the Trust Agreement), all of the outstanding shares of the Company's common stock are held in trust by a trustee on behalf of the persons otherwise entitled to hold the Company's common stock, and such persons, instead, hold common stock trust receipts (Receipts) representing the Company's common stock and associated preferred stock purchase rights (the Rights). Although the trustee is the record holder of the Company's common stock, each holder of a Receipt is generally entitled to all of the rights of a holder of the Company's common stock (including the right to vote and to receive dividends or other distributions), except in certain circumstances. Prior to the September 30, 1999 sale of SEI, if the Company would have failed in certain circumstances to collateralize its obligations to indemnify Emerson with respect to Emerson's guarantees of certain of the Company's government contracts and for so long as such failure continues, Emerson would have had the right to direct the trustee how to vote in the election of directors and certain related matters. In conjunction with the sale of SEI, The Trust Agreement is being dissolved. During 1995, the Company adopted the 1994 Stock Option Plan, and in 1991, the Company adopted the 1990 Stock Option Plan (the Option Plans). The Option Plans permit the Company to grant key management employees (1) options to purchase shares of the Company's common stock (or Receipts representing such shares) or (2) stock appreciation rights with respect to all or any part of the number of shares covered by the options. As long as the Trust Agreement is in effect, an optionee will receive Receipts in lieu of shares. All outstanding options were granted at prices equal to fair market value at the date of grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information regarding stock options awarded under the Option Plans is as follows:

	1999		1998		1997	
	SHARES	ESTIMATED AVG. PRICE	Shares	Estimated Avg. Price	Shares	Estimated Avg. Price
October 1,	953,716	\$ 8.61	998,486	\$ 6.18	889,930	\$6.04
Granted	522,600	\$10.76	89,500	\$18.14	227,450	\$10.78
Exercised	(17,270)	\$ 7.72	(107,964)	\$ 7.58	(68,371)	\$6.87
Cancelled	(21,604)	\$12.00	(26,306)	\$ 7.20	(50,523)	\$9.28
September 30,	1,437,442	\$9.35	953,716	\$ 8.61	998,486	\$ 6.18
At September 30,						
Reserved for future grant	242,725					
Exercisable	698,464	\$9.36	509,559	\$ 7.46	404,387	\$6.18

During 1996, the Company announced a stock repurchase program. Under this program, the Company was authorized to purchase up to two million shares of its common stock in the open market through September 30, 1998. Approximately 180,000 shares were repurchased throughout that two-year period. In October 1998, the Company authorized an additional open market repurchase program of up to 1.3 million shares, which is subject to market conditions and other factors and will cover a period ending September 29, 2000. Approximately 177,000 shares were repurchased in 1999.

During 1993 and 1997, the Board of Directors authorized, and the shareholders approved, the Performance Share Plans (the Plans). The maximum number of shares available for issue under the Plans is 875,000 shares. As of September 30, 1999, 856,000 shares have been awarded and 666,522 shares have been earned.

At September 30, 1999, there were 50,000 shares of restricted stock outstanding and held by certain key executives. These shares will be earned ratably through the period ending September 30, 2001.

The Company has a Preferred Stock Purchase Rights Plan pursuant to which a dividend of one Right was declared for each outstanding share of the Company's common stock. Each Right entitles the holder to purchase one one-hundredth of a share of preferred stock at an initial purchase price of \$25. Approximately 120,000 preferred shares are reserved for issuance under this plan. Under certain conditions involving the acquisition of, or an offer for, 20% or more of the Company's common stock, all holders of Rights, except an acquiring entity, would be entitled (1) to purchase, at a defined price, common stock of the Company or an acquiring entity at a value twice the defined price, or (2) at the option of the Board, to exchange each Right for one share of common stock. The Rights remain in existence until September 30, 2000, unless renewed, redeemed earlier (at one cent per Right), exercised or exchanged under the terms of the plan.

The Company adopted the disclosure-only provisions of SFAS No.

123. Under APB No. 25, no compensation cost was recognized for the Company's stock option plans. Had compensation cost for the Company's stock option plans and performance share plans been determined based on the fair value at the grant date for awards in 1999 and 1998 consistent with the provisions of this Statement, the Company's net earnings and net earnings per share would have been as follows:

(Dollars in thousands, except per share amounts)	Pro forma (Unaudited)	
	1999	1998
Net earnings	\$24,779	11,221
Net earnings per share:		
Basic	2.01	.93
Diluted	1.96	.89

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1999 and 1998, respectively: expected dividend yield of 0% in both periods; expected volatility of 35.3% and 37.2%, risk-free interest rate of 5.89% and 4.42%, and expected life based on historical exercise periods of 4.05 years and 4.11 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

To determine the fair value of grants under the Performance Share Plans, the probability that performance milestones would be met were applied to the ESCO stock price on the date of grant. This probability was based on an estimated average annual growth rate of 10.0% and an annualized volatility of 38.4% and 32.5% in 1999 and 1998, respectively.

9. Retirement and other benefit plans Substantially all employees are covered by defined benefit or defined contribution pension plans maintained by the Company for the benefit of its employees. Benefits are provided to employees under defined benefit pay-related and flat-dollar plans, which are primarily noncontributory. Annual contributions to retirement plans equal or exceed the minimum funding requirements of the Employee Retirement Income Security Act or applicable local regulations. Net periodic benefit cost for the years ended September 30, 1999, 1998 and 1997 is comprised of the following:

(Dollars in millions)	1999	1998	1997

Defined benefit plans:			
Service cost	\$4.1	3.5	3.3
Interest cost	6.7	6.1	5.4
Expected return on plan assets	(7.5)	(6.7)	(5.8)
Amortization of service costs	.3	.2	.1
Net actuarial loss	.8	.1	.2
Curtailment gain	(8.5)	-	-
Settlement loss	2.9	-	-
	---	---	---
Net periodic benefit cost	(1.2)	3.2	3.2
Defined contribution plans	.7	.4	.4
	---	---	---
Total	\$ (.5)	3.6	3.6

The Company recognized a curtailment gain and a settlement loss in 1999 as a result of the sale of SEI on September 30, 1999. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for defined benefit pension plans with accumulated benefit obligations in excess of plan assets were \$1.5 million, \$1.1 million and zero, respectively, as of September 30, 1999, and \$26.3 million, \$25.7 million and \$20.7 million, respectively, as of September 30, 1998.

The net benefit obligation of the Company's defined benefit pension plans as of September 30, 1999 and 1998 is shown below:

(Dollars in millions)	1999	1998

Change in benefit obligation -		
Net benefit obligation at beginning of year	\$96.0	77.6
Service cost	4.1	3.4
Interest cost	6.7	6.1
Plan amendments	.8	.1
Actuarial (gain) loss	(5.5)	11.7
Gross benefits paid	(3.2)	(2.9)
Divestitures	(27.9)	-
Curtailments	(10.6)	-
Settlements	(33.3)	-
	---	---
Net benefit obligation at end of year	\$27.1	96.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The plan assets of the Company's defined benefit pension plans at September 30, 1999 and 1998 are shown below:

(Dollars in millions)	1999	1998
Change in plan assets:		
Fair value of plan assets at beginning of year	\$77.9	78.9
Actual return on plan assets	16.9	(.8)
Employer contributions	3.7	2.7
Divestitures	(66.8)	-
Gross benefits paid	(3.2)	(2.9)
	---	---
Fair value of plan assets at end of year	\$28.5	77.9

The Company's defined benefit pension plans recognized the following net amounts at September 30, 1999 and 1998:

(Dollars in millions)	1999	1998
Funded status at end of year	\$1.3	(18.1)
Unrecognized prior service cost	.4	1.9
Unrecognized net actuarial (gain) loss	(5.6)	7.3
	---	---
Accrued benefit cost	\$(3.9)	(8.9)
	---	---
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	\$ -	.5
Accrued benefit cost	(3.9)	(9.4)
Additional minimum liability	(.1)	(4.1)
Intangible asset	.1	1.8
Accumulated other comprehensive income	-	2.3
	---	---
Accrued benefit liability	\$(3.9)	(8.9)

Pension plan assets consist principally of marketable securities including common stocks, bonds, and interest-bearing deposits. The benefit obligations of the defined benefit plans as of September 30, 1999 and 1998 were based on discount rates of 7.75% and 6.75%, respectively, and an assumed rate of increase in compensation levels of 4%. The 1999, 1998 and 1997 pension expense for the defined benefit plans was based on a 7.75%, 6.75% and 7.50% discount rate, respectively, a 4% increase in compensation levels, and a 10% expected long-term rate of return on plan assets.

In addition to providing retirement income benefits, the Company provides unfunded postretirement health and life insurance benefits to certain retirees. To qualify, an employee must retire at age 55 or later and the employee's age plus service must equal or exceed 75. Retiree contributions are defined as a percentage of medical premiums. Consequently, retiree contributions increase with increases in the medical premiums. The life insurance plans are noncontributory and provide coverage of a flat dollar amount for qualifying retired employees. Net periodic postretirement benefit cost is comprised of the following:

(Dollars in millions)	1999	1998	1997
Service cost	\$.2	.2	.2
Interest cost	.7	1.1	1.2
Net amortization and deferral	(.3)	-	-
Curtailement gain recognized	(8.7)	-	-
	---	---	---
Net periodic postretirement benefit cost	\$(8.1)	1.3	1.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The net benefit obligation for postretirement benefits at September 30, 1999 and 1998 is shown below:

(Dollars in millions)	1999	1998
Net benefit obligation at beginning of year	\$16.0	15.5
Service cost	.2	.2
Interest cost	.7	1.1
Actuarial (gain) loss	(5.8)	1.5
Curtailements	(8.7)	-
Gross benefits paid	(1.4)	(2.3)
	----	----
Net benefit obligation at end of year	\$1.0	16.0

The plan assets for postretirement benefits at September 30, 1999 and 1998 are shown below:

(Dollars in millions)	1999	1998
Fair value of plan assets at beginning of year	\$ -	-
Employer contributions	1.4	2.3
Gross benefits paid	(1.4)	(2.3)
	----	----
Fair value of plan assets at end of year	\$ -	-

The Company recognized the following net amounts for postretirement benefits at September 30, 1999 and 1998:

(Dollars in millions)	1999	1998
Funded status at end of year	\$(1.0)	(16.0)
Unrecognized prior service cost	-	(.1)
Unrecognized net actuarial (gain) loss	(4.6)	1.1
	----	----
Accrued benefit costs	\$(5.6)	(15.0)
	----	----
Amounts recognized in the balance sheet consist of -		
Accrued benefit liability	\$(5.6)	(15.0)

The net benefit obligation of the plans as of September 30, 1999 and 1998 were based on discount rates of 7.75% and 6.75%, respectively. The September 30, 1999 net benefit obligation was based on a health care cost trend of 6.5% for fiscal 1998, gradually grading down to an ultimate rate of 5.5% by 2002. The September 30, 1998 net benefit obligation was based on a health care cost trend of 7% for fiscal 1997, gradually grading down to an ultimate rate of 5.5% by 2002. A 1% increase in the health care cost trend rate for each year would increase the September 30, 1999 net benefit obligation by approximately \$30,000, while a 1% decrease in the health care cost trend rate for each year would decrease the September 30, 1999 net benefit obligation by approximately \$35,000.

The fiscal 1999 and 1998 net periodic benefit costs were based on discount rates of 7.75% and 6.75%, respectively. The net periodic benefit cost was based on an assumed health care cost trend of 6.5% and 7.0% for 1999 and 1998, respectively, gradually grading down to 5.5% by fiscal year 2002. A 1% increase in the health care cost trend rate for each year would increase the aggregate of the service cost and interest cost components of the fiscal 1999 net periodic benefit cost by approximately \$3,600, while a 1% decrease in the health care cost trend rate for each year would decrease the aggregate of the service cost and interest cost components of the fiscal 1999 net periodic benefit cost by approximately \$4,400.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Other financial data Items charged to operations during the years ended September 30, 1999, 1998 and 1997 included the following:

(Dollars in thousands)	1999	1998	1997
Maintenance and repairs	\$7,078	6,751	5,828
Salaries and wages	132,671	133,507	113,953
Research and development costs:			
Company-sponsored	\$7,716	5,866	6,161
Customer-sponsored	8,332	10,201	6,341
Total	\$16,048	16,067	12,502

The increase in 1998 research and development costs is due to the inclusion of Filtrertek for the full year and additional expenditures at Rantec.

Accrued expenses included accrued employee compensation of \$6.0 million and \$10.2 million at September 30, 1999 and 1998, respectively.

11. Business segment information The Company is organized based on the products and services that it offers. Under this organizational structure, on an ongoing basis, the Company will operate in four principal segments: Filtration/Fluid Flow, Test, Communications and Other. Filtration/Fluid Flow operations consist of PTI Technologies Inc. (PTI) and Filtrertek Inc. (Filtrertek). PTI develops and manufactures a wide range of filtration products and is a leading supplier of filters to the commercial aerospace market. Filtrertek develops and manufactures a broad range of high-volume, original equipment manufacturer (OEM) filtration products at its facilities in North America, South America and Europe. Test operations consist of EMC Test Systems, L.P. (ETS) and principally involve the design and manufacture of EMC test equipment, test chambers, shielded rooms for high security data processing and secure communication, and electromagnetic absorption materials. Communications operations consist of Distribution Control Systems, Inc. (DCSI) and are principally involved in providing two-way power line communication systems for the utility industry. These systems provide the electric utilities with a patented communication technology for demand-side management, distribution automation and automatic meter reading capabilities. The Divested Business segment consists of Systems & Electronics Inc. (SEI). As of September 30, 1999, ESCO sold SEI to Engineered Support Systems, Inc. to pursue the Company's strategy of focusing on its commercial businesses. SEI was in the defense systems and electronics business and principally supplied high-capacity aircraft cargo loaders and transportation systems and weapon subsystems to the armed forces. In addition, SEI designed and manufactured launching and guidance systems and airborne radar systems. The Other segment is principally comprised of Rantec Microwave & Electronics, Inc. (Rantec) which designs and manufactures antennas and antenna feeds for wireless communications systems and produces power supplies widely used in high performance displays, such as cockpit instrumentation, engineering workstations and medical imaging. Rantec's microwave antenna business is being offered for sale. Other also includes the operations of Comtrak.

Accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The Company evaluates the performance of its operating segments based on operating profit (loss), which is defined as: net sales, less cost of sales, less other charges related to cost of sales, less SG&A expenses and less restructuring charges. Intersegment sales and transfers are not significant. Segment assets consist primarily of customer receivables, inventories and fixed assets directly associated with the production processes of the segment. Segment assets also include goodwill. Segment depreciation and amortization is based upon the direct assets listed above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NET SALES			
Year ended September 30, (Dollars in millions)	1999	1998	1997
Filtration/Fluid Flow	\$168.9	158.3	123.5
Test	34.9	30.6	26.1
Communications	24.7	19.0	13.4
Other	14.8	22.2	20.9
Divested Business	172.8	135.0	194.6
Consolidated totals	\$416.1	365.1	378.5
OPERATING PROFIT (LOSS)			
Year ended September 30, (Dollars in millions)	1999	1998	1997
Filtration/Fluid Flow	\$11.9	10.5	9.6
Test	4.0	2.9	2.6
Communications	4.0	2.0	1.0
Other	(13.2)	.3	.6
Divested Business	10.4	11.2	13.8
Reconciliation to consolidated totals (Corporate)	(2.2)	-	-
Consolidated totals	\$14.9	26.9	27.6

The 1999 operating profit (loss) includes \$3.9 million of other charges related to cost of sales and \$5.1 million of restructuring charges described earlier.

The filtration/fluid flow segment in 1999 includes \$2.2 million of other charges related to cost of sales attributable to the write-off of inventory resulting from the abandonment of the High Pressure Air Reducing Quiet Manifold for surface ships. The remaining \$1.7 million balance relates to Rantec and Comtrak, and is included in the Other segment.

The 1999 restructuring charges of \$5.1 million are included in the following segments: the \$1.1 million of costs related to exiting the Rantec microwave antenna business area, and the \$1.8 million write-off of the license agreement related to the abandonment of the Vehicle Location System at Comtrak are included in the Other segment. The \$2.2 million of personnel separation costs are included as a Corporate expense.

The total nonrecurring charges included in 1999 operating profit

(loss) amounted to \$9.1 million. The Other segment also includes \$3.8 million of charges related to cost growth on certain development programs at Rantec power systems. The \$2.5 million of other charges related to cost of sales in 1998 related to SEI and is included in Divested Business.

IDENTIFIABLE ASSETS			
Year ended September 30, (Dollars in millions)	1999	1998	1997
Filtration/Fluid Flow	\$195.0	203.0	177.2
Test	22.2	21.5	17.0
Communications	13.9	14.6	9.7
Other	19.2	36.1	34.0
Divested Business	-	80.3	89.5
Reconciliation to consolidated totals (Corporate assets)	128.0	53.8	50.8
Consolidated totals	\$378.3	409.3	378.2

Corporate assets consist primarily of deferred taxes and cash balances.

DEPRECIATION AND AMORTIZATION Year ended September 30, (Dollars in millions)	1999	1998	1997
Filtration/Fluid Flow	\$10.7	10.5	7.5
Test	0.9	0.9	0.7
Communications	1.2	1.2	1.1
Other	1.2	1.2	1.0
Divested Business	3.0	3.6	4.1
	-----	-----	-----
Consolidated totals	\$17.0	17.4	14.4

CAPITAL EXPENDITURES, NET Year ended September 30, (Dollars in thousands)	1999	1998	1997
Filtration/Fluid Flow	\$6.3	7.3	6.4
Test	0.2	0.3	0.4
Communications	0.3	2.5	0.3
Other	0.4	1.3	1.0
Divested Business	1.1	1.5	2.4
	----	----	----
Consolidated totals	\$8.3	12.9	10.5

ESCO'S GEOGRAPHIC INFORMATION FOR 1999, 1998 AND 1997 FOLLOWS:

Net sales to customers (Dollars in millions)	1999	1998	1997
North America	\$346.9	313.0	319.7
Europe	37.0	37.6	31.0
Middle East	3.1	3.9	6.0
Far East	23.5	8.6	17.8
Other	5.6	2.0	4.0
	-----	-----	-----
Consolidated totals	\$416.1	365.1	378.5

LONG-LIVED ASSETS (Dollars in millions)	1999	1998
North America	\$63.8	89.2
Europe	7.5	8.8
	-----	-----
Consolidated totals	\$71.3	98.0

Net sales are attributed to countries based on location of customer. Long-lived assets are attributed to countries based on location of the asset.

12. Emerson contract guarantees Emerson had directly or indirectly guaranteed or was otherwise liable for the performance of most of the Company's contracts with its customers which existed at September 30, 1990 (the Guaranteed Contracts). The Guaranteed Contracts and any potential liability related to these contracts were assumed by the purchaser of SEI at September 30, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Commitments and Contingencies At September 30, 1999, the Company had \$7.3 million in letters of credit outstanding as guarantees of contract performance. Subsequent to the sale of SEI, \$2.7 million of this amount which relates to SEI will be transferred to the acquirer. In 1994, an action was commenced against the Company's Hazeltine subsidiary alleging injury caused by Hazeltine's purported release of hazardous materials. The Company believes that no one and no property were injured by any release of hazardous substances from Hazeltine's plant. In 1996, the plaintiffs filed a motion to be certified as a class. The motion was denied and the plaintiffs appealed. The appellate court affirmed the denial. Based upon the current facts, the Company is not able to estimate the probable outcome. Therefore, no provision for this litigation has been made in the accompanying consolidated financial statements. Management believes the Company will be successful in defending this action and that the outcome will not have a material adverse effect on the Company's financial statements. This contingent liability was retained by the Company when Hazeltine was divested in 1996. As a normal incidence of the businesses in which the Company is engaged, various claims, charges and litigation are asserted or commenced against the Company. In the opinion of management, final judgments, if any, which might be rendered against the Company in current litigation are adequately reserved, covered by insurance, or would not have a material adverse effect on its financial statements.

14. Other Charges related to cost of sales Other charges related to cost of sales of \$3.9 million in 1999 represent the write-off of inventory related to the strategic abandonment of the High Pressure Air Reducing Quiet Manifolds for surface ships (\$2.2 million) and the Vehicle Location Systems (\$.6 million) business areas. Additionally, the Company wrote down the Rantec microwave antenna product line inventory (\$1.1 million) to net realizable value as a result of the anticipated sale of that business area. Other charges related to cost of sales of \$2.5 million in 1998 resulted from the Company's settlement of a long-standing contract dispute on the original M1000 tank transporter program at SEI.

15. Quarterly financial information (Unaudited)

(Dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year

1999					
Net sales	\$ 88,193	96,214	113,978	117,717	416,102
Gross profit	22,894	25,036	27,951	18,613	94,494
Net earnings before accounting change	1,515	2,047	4,072	42,821	50,455
Net earnings	(23,494)	2,047	4,072	42,821	25,446
Earnings per share before accounting change:					
Basic	.12	.17	.33	3.46	4.09
Diluted	.12	.16	.32	3.36	4.00

1998					
Net sales	\$ 78,077	86,030	98,236	102,740	365,083
Gross profit	22,029	24,596	25,641	22,985	95,251
Net earnings	2,610	3,240	3,847	1,599	11,296
Earnings per share:					
Basic	.22	.27	.32	.13	.94
Diluted	.21	.26	.31	.12	.90

Gross profit is computed as net sales, less cost of sales, less other charges related to cost of sales. The 1999 first quarter reflects the impact of adopting SOP 98-5. The 1999 fourth quarter reflects the impact of the SEI divestiture and the nonrecurring costs incurred.

INDEPENDENT AUDITOR'S REPORT

**THE BOARD OF DIRECTORS AND SHAREHOLDERS
ESCO ELECTRONICS CORPORATION:**

We have audited the accompanying consolidated balance sheets of ESCO Electronics Corporation and subsidiaries as of September 30, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1999. These consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ESCO Electronics Corporation and subsidiaries as of September 30, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1999, in conformity with generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Company adopted Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," in 1999.

KPMG LLP

St. Louis, Missouri
November 10, 1999

FIVE-YEAR FINANCIAL SUMMARY

(Dollars in millions, except per share amounts)	1999 (1)	1998 (2)	1997 (3)	1996 (4)	1995 (5)
For years ended September 30:					
Net sales	\$416.1	365.1	378.5	438.5	441.0
Interest expense	6.5	7.7	5.2	4.8	5.5
Earnings (loss) before income taxes	63.5	16.3	17.9	14.8	(29.5)
Net earnings (loss) before accounting change	50.5	11.3	11.8	26.1	(30.3)
Net earnings (loss)	25.5	11.3	11.8	26.1	(30.3)
Earnings (loss) per share:					
Earnings (loss) before accounting change:					
Basic	4.09	.94	1.00	2.32	(2.76)
Diluted	4.00	.90	.96	2.26	(2.76)
Net earnings (loss)					
Basic	2.06	.94	1.00	2.32	(2.76)
Diluted	2.02	.90	.96	2.26	(2.76)
As of September 30:					
Working capital	95.3	60.3	62.3	86.2	71.4
Total assets	378.4	409.3	378.2	307.8	378.0
Long-term debt	41.9	50.1	50.0	11.4	23.5
Shareholders' equity	248.7	224.1	205.0	191.1	182.3

(1) Includes the gain on sale of SEI, accounting change, \$5.1 million of restructuring charges, and \$3.9 million of other charges related to cost of sales.

(2) Includes the acquisitions of Euroshield (December 31, 1997) and AMT (July 1, 1998) (see Footnote 2 of Notes to Consolidated Financial Statements).

(3) Includes the acquisition of Filtertek in February 1997 (see Footnote 2 of Notes to Consolidated Financial Statements).

(4) Includes the sale of Hazeltine; \$25.3 million of other charges related to cost of sales; and includes an adjustment to the income tax valuation reserve.

(5) Includes \$16.5 million of other charges related to cost of sales and a change in accounting estimate.

COMMON STOCK MARKET PRICES

The Company's common stock trust receipts and the underlying common stock and associated preferred stock purchase rights (subsequently referred to as common stock) are listed on the New York Stock Exchange under the symbol "ESE." The following table summarizes the high and low prices of the Company's common stock for each quarter of 1999 and 1998.

Quarter	1999		1998	
	HIGH	LOW	High	Low
First	11 3/4	8 3/4	19 15/16	163/16
Second	11 1/4	9 3/16	18 7/16	16
Third	11 7/8	10 1/8	20 3/4	165/8
Fourth	13 3/8	11 3/4	19 5/16	85/8

SHAREHOLDER'S SUMMARY

CAPITAL STOCK INFORMATION

ESCO Electronics Corporation common stock trust receipts (and the underlying common stock and associated preferred stock purchase rights) (symbol ESE) are listed on the New York Stock Exchange.

There were approximately 8,178 holders of record of trust receipts representing shares of common stock at September 30, 1999.

EXHIBIT 21**SUBSIDIARIES OF
ESCO ELECTRONICS CORPORATION**

NAME -----	STATE OR JURISDICTION OF INCORPORATION OR ORGANIZATION -----	NAME UNDER WHICH IT DOES BUSINESS -----
Comtrak Technologies, L.L.C.	Missouri	Same
Defense Holding Corp.	Delaware	Same
Distribution Control Systems Caribe, Inc.	Puerto Rico	Same
Distribution Control Systems, Inc.	Missouri	Same
EMC Test systems, L.P.	Texas	Same
Euroshield OY	Finland	Same
Filtertek BV	Netherlands	Same
Filtertek de Puerto Rico, Inc.	Delaware	Same
Filtertek Do Brazil	Brazil	Same
Filtertek Inc.	Delaware	Same and Tek Packaging Division
Filtertek SA	France	Same
PTI Advanced Filtration Inc.	Delaware	Same
PTI Technologies Inc.	Delaware	Same
PTI Technologies Limited	England	Same
Rantec Microwave & Electronics, Inc.	Delaware	Same
VACCO Industries	California	Same

Exhibit 23

Independent Auditors' Consent

The Board of Directors
ESCO Electronics Corporation:

We consent to incorporation by reference in the registration statements (Nos. 33-39737, 33-47916, 33-98112 and 333-92945) on Form S-8 of ESCO Electronics Corporation of our report dated November 10, 1999, relating to the consolidated balance sheets of ESCO Electronics Corporation and subsidiaries as of September 30, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1999, which report appears in the September 30, 1999 Annual Report on Form 10-K of ESCO Electronics Corporation.

KPMG LLP

St. Louis, Missouri
December 21, 1999

ARTICLE 5

PERIOD TYPE	12 MOS
FISCAL YEAR END	SEP 30 1999
PERIOD START	OCT 01 1998
PERIOD END	SEP 30 1999
CASH	87,709
SECURITIES	0
RECEIVABLES	39,243 ¹
ALLOWANCES	574
INVENTORY	39,590
CURRENT ASSETS	173,546
PP&E	109,763
DEPRECIATION	38,445
TOTAL ASSETS	378,385
CURRENT LIABILITIES	78,217
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	128
OTHER SE	248,561
TOTAL LIABILITY AND EQUITY	378,385
SALES	416,102
TOTAL REVENUES	416,102
CGS	317,681
TOTAL COSTS	341,315
OTHER EXPENSES	4,871
LOSS PROVISION	0
INTEREST EXPENSE	6,460
INCOME PRETAX	63,456
INCOME TAX	13,001
INCOME CONTINUING	50,455
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	25,446
EPS BASIC	2.06
EPS DILUTED	2.02

¹ This number does not include 11.8 million of Costs and Estimated Earnings on Long-Term Contracts