

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2001

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 Technologies Inc.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Missouri 43-1554045  
(STATE OR OTHER JURISDICTION (I.R.S. EMPLOYER  
OF INCORPORATION OR ORGANIZATION) IDENTIFICATION NO.)

8888 Ladue Road, Ste. 200  
St. Louis, Missouri 63124-2056  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (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, par value \$0.01 per share	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

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

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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. [ ]

Aggregate market value of the Common Stock held by non-affiliates of the registrant as of close of business on December 17, 2001: \$387,536,021.\*

\* 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 shares of Common Stock outstanding at December 17, 2001: 12,421,785

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 2001 (the "2001 Annual Report") (Parts I and II).
2. Portions of the registrant's Proxy Statement dated December 11, 2001 (Part III).

(Cover page 2 of 2 pages)

ESCO TECHNOLOGIES INC.  
INDEX TO ANNUAL REPORT ON FORM 10-K

Item	Description	Page
-----	-----	-----
Part I		
1.	Business.....	1
	The Company.....	1
	Products.....	1
	Marketing and Sales.....	3
	Intellectual Property.....	4
	Backlog.....	4
	Purchased Components and Raw Materials.....	4
	Competition.....	5
	Research and Development.....	5
	Environmental Matters.....	5
	Government Contracts.....	6
	Employees.....	6
	Financing.....	6
	History of the Business.....	6
	Forward-Looking Information.....	6
2.	Properties.....	7
3.	Legal Proceedings.....	8
4.	Submission of Matters to a Vote of Security Holders.....	8
	Executive Officers of the Registrant.....	9
Part II		
5.	Market for the Registrant's Common Equity and Related Stockholder Matters.....	9
6.	Selected Financial Data.....	9
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
7A.	Quantitative and Qualitative Disclosures About Market Risk.....	10
8.	Financial Statements and Supplementary Data.....	10
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	10

Item	Description	Page
- - - - -	- - - - -	- - - - -
Part III		
10.	Directors and Executive Officers of the Registrant.....	10
11.	Executive Compensation.....	10
12.	Security Ownership of Certain Beneficial Owners and Management.....	10
13.	Certain Relationships and Related Transactions.....	10
Part IV		
14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	11
SIGNATURES .....		15
INDEX TO EXHIBITS .....		16

## PART I

### ITEM 1. BUSINESS

#### THE COMPANY

ESCO Technologies Inc. ("ESCO") is a producer of engineered products and systems for industrial and commercial applications sold to customers world-wide. ESCO operates in four industry segments which, together with the operating subsidiaries within each segment, are as follows:

##### Filtration/Fluid Flow:

PTI Technologies Inc.  
PTI Advanced Filtration Inc.  
PTI Technologies Limited  
Bea Filtri S.p.A. ("Bea")  
Filtertek Inc.  
Filtertek BV  
Filtertek de Puerto Rico, Inc.  
Filtertek do Brazil Industria E Commerico Limitada  
Filtertek SA  
VACCO Industries ("VACCO")  
ESCO Electronica De Mexico, S.A. de C.V.

##### Test:

EMC Test Systems, L.P. ("ETS")  
Lindgren R.F. Enclosures, Inc. ("Lindgren")  
Rayproof Ltd.  
Euroshield OY  
Holaday Industries, Inc. ("Holaday")

##### Communications:

Distribution Control Systems, Inc. ("DCSI")  
Distribution Control Systems Caribe, Inc. ("DCSI-Caribe")  
Comtrak Technologies, L.L.C. ("Comtrak")

##### Other:

Rantec Power Systems Inc. ("Rantec")

The above operating subsidiaries are engaged primarily in the research, development, manufacture, sale and support of the products and systems described below, and are subsidiaries of ESCO Technologies Holding Inc., 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 "Management's Discussion and Analysis" appearing in the 2001 Annual Report.

#### PRODUCTS

The Company's products are described below. See Note 11 of the Notes to Consolidated Financial Statements in the 2001 Annual Report, which Note is herein incorporated by reference.

##### FILTRATION/FLUID FLOW

The Company's Filtration/Fluid Flow segment accounted for approximately 55% of the Company's total revenue in fiscal year 2001.

PTI Technologies Inc., PTI Advanced Filtration Inc., PTI Technologies Limited and Bea develop and

manufacture a wide range of filtration products. PTI Technologies Inc. is a leading supplier of filters to the commercial aerospace and industrial markets. The industrial business includes the supply of filtration products for process and mobile fluid power applications. PTI Advanced Filtration Inc. produces microfiltration products for applications in microelectronic, food and beverage, and pharmaceutical markets. Membrane separation products and systems are also produced by PTI Advanced Filtration Inc. for use in the dairy industry and industrial coatings applications. PTI Technologies Limited manufactures and distributes filter products primarily in the European industrial marketplace. Bea, acquired in June 2001, is a manufacturer and supplier of filtration products to the pharmaceutical, food and beverage, healthcare and petro-chemical markets, primarily in Europe. VACCO and PTI Technologies Inc. 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 very harsh environments. VACCO supplies flow control products to the aerospace industry for use in aircraft, satellite propulsion systems, satellite launch vehicles and the space shuttle. VACCO also uses its etched disc technology to produce quiet valves and manifolds for U.S. Navy and severe service industrial applications.

All of the Filtertek entities listed above under "THE COMPANY" are hereinafter collectively referred to as "Filtertek". Filtertek develops and manufactures a broad range of high-volume 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 system market, and other commercial and industrial markets. Typical Filtertek customers may 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 Filtertek's products are produced utilizing patented technology or incorporate proprietary product or process design, or both. Filtertek's products are typically supplied to original equipment manufacturers under long-term contracts. In fiscal year 2001, Filtertek introduced a number of new products including automotive fuel injection and fuel pump filters, newly patented transmission sump filters, blood filtration devices and industrial products such as spray paint system filters.

#### TEST

The Company's Test segment accounted for approximately 25% of the Company's total revenue in fiscal year 2001.

ETS designs and manufactures electromagnetic compatibility ("EMC") test equipment. It also supplies controlled radio frequency ("RF") testing environments (anechoic chambers) 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, calibration equipment and other test accessories required to perform a variety of RF tests. 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. Revenue from this contract, which was substantially completed during fiscal year 2001, amounted to approximately 5% of total revenue for the Test segment in fiscal year 2001.

Lindgren designs, manufactures, installs and services electromagnetic ("EM") shielding systems used in medical equipment, wireless communication product testing and electronics products. Lindgren's products include RF and magnetic shielding for magnetic resonance imaging ("MRI") rooms, shielded test enclosures, RF filters, fiber optic interface components, active magnetic field compensation systems, and a line of proprietary doors designed specifically for EM isolation, containment and measurement applications. Lindgren also supplies special high performance RF and acoustic shielded rooms for secure data processing and communications for government security applications.

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 solutions.

Holaday designs and manufactures specialty measurement probes for use in broadband and EMC test, health and safety, and microwave detection products. Holaday's products include probes, meters, analysis

software, personal protection equipment and components used by original equipment manufacturers and service professionals. Holaday also performs calibration certification services for its probes and meters.

#### COMMUNICATIONS

In fiscal year 2001, approximately 17% of the Company's total revenue 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 automatic meter reading, demand-side management and distribution automation (the TWACS(R) system). Revenue from the TWACS systems accounted for approximately 16%, 14% and 6% of the Company's consolidated revenue in fiscal years 2001, 2000 and 1999, respectively. During fiscal year 2001, DCSI (through its subsidiary, DCSI-Caribe) received substantial revenue from 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. Revenue from this contract amounted to approximately 34% of total Communications segment revenue in fiscal year 2001, when deliveries were completed. PREPA has awarded DCSI-Caribe a follow-on contract running from fiscal 2001 to fiscal 2006 which has a value of approximately \$50 million. Revenue from this contract is expected to constitute approximately 15% of total Communications segment revenue in fiscal year 2002. During 1999, DCSI was chosen to supply the first phase of an AMR project to Wisconsin Public Service Co. ("WPS"). The first phase was completed during fiscal 2001. WPS has awarded DCSI a follow-on contract in the amount of \$9.3 million, which is expected to be completed during fiscal 2002. In addition, in October 2001 DCSI received in excess of \$30 million in new orders from a total of six customers, including Lee County (Florida) Electric Co-op, Inc. and Perdenales (Texas) Electric Co-op, Inc.

Comtrak has developed an advanced 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 SecurVision(R) trademark to a variety of markets.

#### OTHER

The Company's Other products segment represented approximately 3% of the Company's total revenue in fiscal year 2001.

Rantec designs and manufactures high voltage and low voltage power supplies, DC to 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. Rantec has continued its development of state-of-the art, patented, miniature high voltage technology, which provides the same basic functions of today's high voltage power supplies and reduces package size by 80%.

#### MARKETING AND SALES

The Company's Filtration/Fluid Flow and Test segments' products generally are distributed to customers through a domestic and foreign network of distributors, sales representatives and factory salespersons. The Communications and Other segments' systems are primarily sold directly to the respective end users; however, the Communications segment utilizes distributors to sell its systems to the electric co-op market.

The Company's international sales (excluding sales of ESCO's former Systems & Electronics Inc. ("SEI") subsidiary which was sold on September 30, 1999) accounted for approximately 22%, 23% and 13% of the Company's total sales in the fiscal years ended September 30, 2001, 2000 and 1999, respectively. The increases since fiscal year 1999 were primarily due to increased sales at ETS and Filtertek and the acquisition of Lindgren. See Note 11 of the Notes to Consolidated Financial Statements in the 2001 Annual Report. Since the divestiture of SEI, international sales have been derived primarily from industrial and commercial products rather than defense 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 customers.

Some of the Company's 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. Excluding SEI results, direct and indirect sales to the U.S. Government accounted for approximately 12%, 8% and 10% of the Company's total sales in the fiscal years ended September 30, 2001, 2000 and 1999, respectively.

#### 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 a major supplier of engineered products to growing industrial and commercial markets, the Company emphasizes developing intellectual property and protecting its rights therein. However, the scope of protection afforded by intellectual property rights, including those of the Company, is often uncertain and involves complex legal and factual issues. Some intellectual property rights, such as patents, have only a limited term. With respect to patents, there can be no assurance that issued patents will not be infringed or designed around by others. In addition, the Company may not elect to pursue an infringer due to the high costs and uncertainties associated with litigation. Further, there can be no assurance that courts will ultimately hold issued patents valid and enforceable.

With respect to the Filtration/Fluid Flow segment, an increasing number of products are based on patented or otherwise proprietary technology that sets them apart from the competition. In the Test and Other segments, patent protection is sought for significant inventions. In the Communications segment, many of the products are based on patented or otherwise proprietary technology.

The Company considers its patent and other intellectual property to be of significant value in each of its segments. The Communications segment owns intellectual property which it deems necessary or desirable for the manufacture, use or sale of its products. No other segment is materially dependent on any single patent, group of patents or other intellectual property.

#### BACKLOG

The backlog of firm orders at September 30, 2001 and September 30, 2000, respectively, was: \$70.8 million and \$73.5 million for Filtration/Fluid Flow; \$27.4 million and \$33.9 million for Test; \$72.8 million and \$27.9 million for Communications; and \$9.1 million and \$10.1 million for Other. As of September 30, 2001, it is estimated that domestic customers accounted for approximately 77% of the Company's total firm orders, and international customers accounted for approximately 23%. Of the Company's total backlog of orders at September 30, 2001, approximately 86% is expected to be completed in the fiscal year ending September 30, 2002.

#### 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 and raw materials 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. The Test segment is a vertically integrated supplier of EM shielding products, producing most of its critical RF components. This capability enables the Test segment to control the level of quality, RF performance and delivery response time for its customers. 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

Competition in the Company's major markets is broadly based and global in scope. The Company faces intense competition from a large number of firms for nearly all of its products. Competition can be particularly intense during periods of economic slowdown, and this has been experienced in the past in some of the Filtration/Fluid Flow markets. Although the Company is a leading supplier in several of the markets it serves, it maintains a relatively small share of the business in many of the markets in which it participates. Individual competitors range in size from annual revenues of less than \$1 million to billion dollar enterprises. Because of the specialized nature of the Company's products, it is impossible to state precisely its competitive position with respect to 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, technology, price and delivery performance. The following information concerns the Company's primary segments.

Pall Corporation is a major competitor in the Filtration/Fluid Flow market. Other significant competitors in this market include Millipore Corp., Osmonics Inc. and Cuno Inc.

The Test segment is the global leader in the EM shielding market. Significant competitors in this served market include Braden Shielding Systems and TDK RF Solutions Inc.

Primary competitors of the Communications segment in the utility communications market include Itron, Inc. and Schlumberger Limited.

## 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 enhance their commercial potential.

The following information excludes expenses attributable to SEI. The Company performs research and development at its own expense, and also engages in research and development funded by customers. For the fiscal years ended September 30, 2001, 2000 and 1999, total Company-sponsored research and development expenses were approximately \$9.4 million, \$6.2 million and \$6.3 million, respectively. The increase in fiscal 2001 for Company-sponsored research and development expenses was due to additional investments made within the Filtration/Fluid Flow and Communications segments. Total customer-sponsored research and development expenses were approximately \$5.2 million, \$4.0 million and \$8.3 million for the fiscal years ended September 30, 2001, 2000 and 1999, respectively. The decreases since fiscal year 1999 for customer-sponsored research and development expenses were due primarily to lower activity at Rantec, as well as the sale of the Rantec microwave antenna business. All of the foregoing expense amounts exclude certain engineering costs primarily associated with product line extensions, modifications and maintenance, which amounted to approximately \$10.8 million and \$8.4 million for the fiscal years ended September 30, 2001 and 2000, respectively.

## ENVIRONMENTAL MATTERS

The Company is involved in various stages of investigation and cleanup relating to environmental matters. 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 any of its environmental matters will have a material adverse effect on the Company's financial statements.

## GOVERNMENT CONTRACTS

The Company's contracts with the U.S. Government and subcontracts with prime contractors of the U.S. Government are primarily firm fixed price contracts under which 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 equitable compensation for same. See "Marketing And Sales" in this Item 1.

## EMPLOYEES

As of November 30, 2001, the Company employed approximately 2,400 persons. Approximately 230 of these employees are covered by a collective bargaining agreement, which will expire in fiscal year 2005.

## FINANCING

On April 11, 2000, the Company entered into a \$75 million revolving credit facility replacing its previous \$40 million credit facility. The \$75 million credit facility has the following scheduled reductions: \$9,750,000 on April 11, 2002, \$10,500,000 on April 11, 2003, \$9,750,000 on April 11, 2004, and the remaining balance is due upon maturity and expiration, April 11, 2005. The credit facility was amended on February 28, 2001 to allow for borrowings in foreign currencies. The Company maintains the option to increase the credit facility by \$25 million through April 11, 2002. The credit facility is available for direct borrowings and/or the issuance of letters of credit. The credit facility contains customary events of default, including change in control of the Company. The credit facility is provided by a group of five banks, led by Bank of America. 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 2001 Annual Report, and Note 7 of the Notes to Consolidated Financial Statements in the 2001 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 several Emerson subsidiaries, which were primarily in the defense business. Ownership of ESCO and its subsidiaries was distributed on October 19, 1990 by Emerson to its shareholders through a special distribution. Effective July 10, 2000, ESCO changed its name from ESCO Electronics Corporation to ESCO Technologies Inc.

On June 8, 2001, the Company acquired the stock of Bea Filtri, S.p.A., and integrated this business into the Filtration/Fluid Flow segment.

In fiscal year 2001, the Company completed the consolidation of the Eaton fluid flow components business into VACCO's facility at South El Monte, California; closed redundant facilities of the Test segment in Riviera Beach, Florida and of the Filtration/Fluid Flow segment in Stockton, California; and made significant progress in consolidating operations in the Test segment.

## 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, 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: further weakening of economic conditions in served markets; changes in customer demands or customer insolvencies; electricity shortages; competition; intellectual property matters; consolidation of internal operations; integration of recently acquired businesses; delivery delays or defaults by customers; performance issues with key suppliers and subcontractors; collective bargaining labor disputes; and the Company's successful execution of internal operating plans.

## ITEM 2. PROPERTIES

The Company's principal buildings contain approximately 1,313,050 square feet of floor space. Approximately 672,400 square feet are owned by the Company and approximately 640,650 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 2001 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)
Oxnard, CA	127,400	Leased	12-29-05	Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Oxnard, CA	125,000	Leased	12-29-05	Management, Engineering and 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)
Milan, Italy	85,700	Leased	6-7-13 (w/one 6-year renewal option)	Management, Engineering and Manufacturing (Filtration/Fluid Flow)
South El Monte, CA	80,800	Owned		Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Huntley, IL	74,000	Owned		Manufacturing (Filtration/Fluid Flow)
Cedar Park, TX	70,400	Leased	12-29-05	Management, Engineering and Manufacturing (Test)
Glendale Heights, IL	59,400	Leased	3-31-05 (w/one 5-year and three 3-year renewal options)	Management, Engineering and Manufacturing (Test)
Los Osos, CA	40,000	Owned		Management, Engineering and Manufacturing (Other Products)

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	12-31-04	Engineering and Manufacturing (Filtration/Fluid Flow)
Sheffield, England	33,500	Owned		Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Plailly, France	33,000	Owned		Engineering and Manufacturing (Filtration/Fluid Flow)
Sao Paulo, Brazil	31,000	Leased	12-14-02	Manufacturing (Filtration/Fluid Flow)
Minocqua, WI	30,200	Leased	3-31-05 (w/one 5-year, and three 3-year renewal options)	Engineering and Manufacturing (Test)
Eden Prairie, MN	29,700	Leased	5-31-08 (option to terminate after 5-31-98)	Engineering and Manufacturing (Test)
Eura, Finland	29,300	Owned		Management, Engineering and Manufacturing (Test)
Stevenage, England	25,650	Leased	8-11-17 (w/option to terminate on 8-12-07)	Management, Engineering and Manufacturing (Test)
St. Louis, MO	21,800	Leased	8-31-05 (w/two 5-year renewal options)	ESCO Headquarters

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

None

#### 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, 2001 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 *	63	Chairman and Chief Executive Officer
Victor L. Richey, Jr.	44	President and Chief Operating Officer
Charles J. Kretschmer	45	Executive Vice President and Chief Financial Officer
Alyson S. Barclay	42	Vice President, Secretary and General Counsel

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\* 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.

Mr. Moore was Chairman, President and Chief Executive Officer of ESCO from October 1992 until August 2001, and has been Chairman and Chief Executive Officer since the latter date.

Mr. Richey was Vice President, Administration of ESCO from May 1998 until October 2000, Senior Vice President and Group Executive from October 2000 until August 2001, and President and Chief Operating Officer since the latter date.

Mr. Kretschmer was Vice President of ESCO from February 1999 until October 1999, Vice President and Chief Financial Officer from October 1999 until October 2000, Senior Vice President and Chief Financial Officer from October 2000 until October 2001, and Executive Vice President and Chief Financial Officer since the latter date.

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

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 Note 8 of the Notes to Consolidated Financial Statements, "Common Stock Market Prices" and "Shareholders' Summary--Capital Stock Information" appearing in the 2001 Annual Report. 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.

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 2001 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 2001 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 2001 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 23 through 44 and the report thereon of KPMG LLP, independent certified public accountants, appearing on page 46 of the 2001 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 11, 2001 (the "2002 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 2002 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 2002 Proxy Statement is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding beneficial ownership of shares of common stock by nominees and directors, by executive officers, by directors and executive officers as a group and by any known five percent stockholders appearing under "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners" in the 2002 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 23 through 44 and the Independent Auditors' Report thereon of KPMG LLP appearing on page 46 of the 2001 Annual Report.

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

3. Exhibits

Exhibit Number -----	Description -----	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote -----
2	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 [1]
3.1	Restated Articles of Incorporation	Incorporated by Reference, Exhibit 3(a)[2]
3.2	Amended Certificate of Designation, Preferences and Rights of Series A Participating Cumulative Preferred Stock of the Registrant	Incorporated by Reference, Exhibit 4(e)[3]
3.3	Articles of Merger effective July 10, 2000	Incorporated by Reference, Exhibit 3(c)[4]
3.4	Bylaws, as amended	Incorporated by Reference, Exhibit 3(d)[4]
4.1	Specimen Common Stock Certificate	Incorporated by reference, Exhibit 4(a)[4]
4.2	Specimen Rights Certificate	Incorporated by Reference, Exhibit B to Exhibit 4.1[5]
4.3	Rights Agreement dated as of September 24, 1990 (as amended and restated as of February 3, 2000) between the Registrant and Registrar and Transfer Company, as successor Rights Agent	Incorporated by Reference, Exhibit 4.1[5]
4.4	Amended and Restated Credit Agreement dated as of February 28, 2001, among the Registrant, Bank of America, N.A., as agent, and the lenders listed therein	Incorporated by Reference, Exhibit 4(d)[6]

10.1	Form of Split Dollar Agreement*	Incorporated by Reference, Exhibit 10(j)[7]
10.2	Form of Indemnification Agreement with each of ESCO's directors.	Incorporated by Reference, Exhibit 10(k)[7]
10.3	Supplemental Executive Retirement Plan as amended and restated as of August 2, 1993*	Incorporated by Reference, Exhibit 10(n)[8]
10.4	Second Amendment to Supplemental Executive Retirement Plan effective May 1, 2001*	
10.5	Directors' Extended Compensation Plan*	Incorporated by Reference, Exhibit 10(o)[8]
10.6	First Amendment to Directors' Extended Compensation Plan*	Incorporated by Reference, Exhibit 10.11[9]
10.7	Second Amendment to Directors' Extended Compensation Plan effective April 1, 2001*	
10.8	1994 Stock Option Plan (as amended and restated effective October 16, 2000)*	Incorporated by Reference, Exhibit 10.1[10]
10.9	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10.15[9]
10.10	Severance Plan*	Incorporated by Reference, Exhibit 10(p)[11]
10.11	Performance Compensation Plan dated as of August 2, 1993 (as amended and restated as of October 1, 1995)*	Incorporated by reference, Exhibit 10(q)[12]
10.12	Amendment to Performance Compensation Plan effective January 1, 2000*	
10.13	Notice Of Award--Stock award to executive officer*	Incorporated by Reference, Exhibit 10(s)[13]
10.14	1999 Stock Option Plan (as amended and restated effective October 16, 2000)*	Incorporated by Reference, Exhibit 10.2[10]
10.15	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10.3[10]
10.16	Employment Agreement with Executive Officer*	Incorporated by Reference, Exhibit 10(aa)[2]
10.17	Employment Agreement with Executive Officer*[14]	Incorporated by Reference, Exhibit 10(bb)[2]
10.18	Amendment to Employment Agreement with Executive Officer*[15]	



10.19	Executive Stock Purchase Plan*	Incorporated by Reference, Exhibit 10.24[9]
10.20	Notice of Award - stock award to executive officer*	Incorporated by Reference, Exhibit 10.25[9]
10.21	2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit B[16]
10.22	Compensation Plan For Non-Employee Directors*	
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2001: Five-Year Financial Summary (p.47) Management's Discussion and Analysis (pgs.13-22) Consolidated Financial Statements (pgs.23-44) and Independent Auditors' Report (p.46) Shareholders' Summary--Capital Stock Information (p.48) Common Stock Market Prices (p.47)	
21	Subsidiaries of ESCO	
23	Independent Auditors' Consent	

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

[2] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1999, at the Exhibit indicated.

[3] Incorporated by reference to Form 10-Q for the fiscal quarter ended March 31, 2000, at the Exhibit indicated.

[4] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2000, at the Exhibit indicated.

[5] Incorporated by reference to Current Report on Form 8-K dated February 3, 2000, at the Exhibit indicated.

[6] Incorporated by reference to Form 10-Q for the fiscal quarter ended March 31, 2001, at the Exhibit indicated.

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

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

[9] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2000, at the Exhibit indicated.

[10] Incorporated by reference to Form 10-Q for the fiscal quarter ended December 31, 2000, at the Exhibit indicated.

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

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

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

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

[15] Identical Amendments to Employment Agreements between ESCO and executive officers Alyson S. Barclay and Victor L. Richey, Jr.

[16] Incorporated by reference to Notice of Annual Meeting of the Stockholders and Proxy Statement dated December 11, 2000, at the Exhibit indicated.

\* 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, 2001.
- (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 TECHNOLOGIES INC.

By (s) D.J. Moore

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D.J. Moore  
Chairman and  
Chief Executive Officer

Dated: December 20, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below effective December 20, 2001, by the following persons on behalf of the registrant and in the capacities indicated.

SIGNATURE

TITLE

(s) D.J. Moore  
-----  
D.J. Moore  
Chairman, Chief Executive Officer  
and Director

(s) V.L. Richey, Jr.  
-----  
V.L. Richey, Jr.  
President and  
Chief Operating Officer

(s) C.J. Kretschmer  
-----  
C.J. Kretschmer  
Exec. Vice President and  
Chief Financial Officer

(s) G.E. Muenster  
-----  
G.E. Muenster  
Vice President and Controller  
(Principal Accounting Officer)

(s) W.S. Antle III  
-----  
W.S. Antle III  
Director

(s) J.M. McConnell  
-----  
J.M. McConnell  
Director

(s) L.W. Solley  
-----  
L.W. Solley  
Director

(s) J.M. Stolze  
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J.M. Stolze  
Director

(s) D.C. Trauscht  
-----  
D.C. Trauscht  
Director

(s) J.D. Woods  
-----  
J.D. Woods  
Director

INDEX TO EXHIBITS

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

Exhibit No.	Exhibit
10.4	Second Amendment to Supplemental Executive Retirement Plan effective May 1, 2001.
10.7	Second Amendment to Directors' Extended Compensation Plan effective April 1, 2001.
10.12	Amendment to Performance Compensation Plan effective January 1, 2000
10.18	Amendment to Employment Agreement with Executive Officer
10.22	Compensation Plan For Non-Employee Directors
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2001:  Five-year Financial Summary (p. 47) Management's Discussion and Analysis (pgs. 13-22) Consolidated Financial Statements (pgs. 23-44) and Independent Auditors' Report (p. 46) Shareholders' Summary--Capital Stock Information (p. 48) Common Stock Market Prices (p. 47)
21	Subsidiaries of ESCO
23	Independent Auditors' Consent

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

SECOND AMENDMENT TO THE ESCO ELECTRONICS CORPORATION  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

WHEREAS, ESCO Technologies Inc. ("Company") previously adopted the ESCO Electronics Corporation Supplemental Executive Retirement Plan ("Plan") for the benefit of selected executives effective as of August 2, 1993; and

WHEREAS, the Company retained the right to amend the Plan pursuant to Section IX-G thereof; and

WHEREAS, the Company desires to amend the Plan effective May 1, 2001 ("Effective Date");

NOW, THEREFORE, effective as of the Effective Date, the Plan is amended as follows:

1. Section IV-B is deleted in its entirety and replaced with the following:

B. Notwithstanding Section IV-A, the benefit payable under Section III may, at the election of the Participant or Beneficiary, as applicable, be payable as a benefit of equivalent actuarial value to the benefit described in Section III in accordance with any distribution form permitted under the Retirement Plan, except that, a lump sum distribution form shall not be available at the Participant's or Beneficiary's election.

Notwithstanding Section IV-A, the Committee may, in its discretion, direct that a benefit, of equivalent actuarial value to the benefit described in Section III, shall be payable to any Participant in such form and payable at such times as the Committee shall determine, including, without limitation, a lump sum distribution form. All equivalent actuarial values shall be determined using the same actuarial assumptions as are used in computing equivalent actuarial values under the Retirement Plan.

2. Section IX-G is deleted and replaced with the following:

G. Amendment and Termination. The Committee may and reserves the right to amend or terminate the Plan. Each Employer may terminate its participation in the Plan at any time with approval of the Committee.

IN WITNESS WHEREOF, ESCO Technologies Inc. has caused this Amendment to be executed by one of its duly authorized officers this 10th day of May, 2001.

ESCO TECHNOLOGIES INC.

By \_\_\_\_\_  
\_\_\_\_\_

SECOND AMENDMENT TO ESCO ELECTRONICS  
CORPORATION DIRECTORS' EXTENDED COMPENSATION PLAN

WHEREAS, ESCO Technologies Inc. (formerly ESCO Electronics Corporation) ("Company") adopted the ESCO Electronics Corporation Director's Extended Compensation Plan ("Plan"); and

WHEREAS, the Company retained the right to amend the Plan; and

WHEREAS, the Company desires to amend the Plan effective as of April 1, 2001;

NOW, THEREFORE, effective as of April 1, 2001, the Plan is amended as follows:

1. The following is added at the end of Section II:

No director joining the Board as an outside director for the first time on or after April 1, 2001 shall be eligible to participate in the Plan.

2. The first sentence of Section III is revised to read as follows:

The annual benefit under the Plan shall be a percentage of the annual cash retainer of \$20,000 being paid to directors as of April 1, 2001, based upon the number of the director's complete years of service at the time of retirement in accordance with the following table:

3. The following is added at the end of Paragraph 3 of Section III:

Notwithstanding the foregoing the director may elect, upon such terms and conditions as the Human Resources and Ethics Committee of the Board may determine, to receive the actuarial equivalent of the entire benefit in a single lump cash sum.

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 10th day of May, 2001.

RESOLUTIONS ADOPTED BY THE HUMAN RESOURCES  
AND ETHICS COMMITTEE OF THE BOARD OF DIRECTORS  
OF ESCO TECHNOLOGIES INC.

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WHEREAS, ESCO Technologies Inc. ("Company") adopted the ESCO Electronics Corporation Performance Compensation Plan for Corporate, Subsidiary and Division Officers and Key Managers ("Plan"); and

WHEREAS, the Human Resources and Ethics Committee of the Board of Directors of the Company ("Committee") has been authorized to amend the Plan; and

WHEREAS, the Committee desires to amend the Plan effective as of January 1, 2000:

NOW, THEREFORE, BE IT

RESOLVED, that the Plan is amended as follows:

1. The fifth sentence of Section V is amended to read as follows:

"Performance Compensation Awards for some Participants may be based upon predetermined Subsidiary, Division or individual performance targets whereas Performance Compensation Awards for other Participants may be totally discretionary as determined by the Committee." and BE IT FURTHER

RESOLVED, that the proper officers of the Company be, and they hereby are, authorized and directed to take such further action and execute such documents as they, with the advice of counsel, deem necessary or desirable to carry out the intent of the foregoing.

The foregoing Resolutions were adopted by the Committee this 9th day of November, 2000.



AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AGREEMENT entered into as of August 9, 2001 between ESCO Technologies Inc. ("Company") and Charles J. Kretschmer ("Executive").

WITNESSETH:

WHEREAS, the Company and the Executive entered into an Employment Agreement as of November 3, 1999 ("Agreement"); and

WHEREAS, the parties retained the right to amend the Agreement pursuant to Article 15 thereof; and

WHEREAS, the parties desire to amend the Agreement effective as of August 9, 2001;

NOW, THEREFORE, effective as of August 9, 2001, the Agreement is amended as follows:

- 1. The following is added at the end of Paragraph 1:

This Agreement shall be extended until November 2, 2004.

IN WITNESS WHEREOF, the foregoing Agreement was executed effective as of August 9, 2001.

ESCO TECHNOLOGIES INC.

By: -----

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Charles J. Kretschmer

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AGREEMENT entered into as of August 9, 2001 between ESCO Technologies Inc. ("Company") and Alyson S. Barclay ("Executive").

WITNESSETH:

WHEREAS, the Company and the Executive entered into an Employment Agreement as of November 3, 1999 ("Agreement"); and

WHEREAS, the parties retained the right to amend the Agreement pursuant to Article 15 thereof; and

WHEREAS, the parties desire to amend the Agreement effective as of August 9, 2001;

NOW, THEREFORE, effective as of August 9, 2001, the Agreement is amended as follows:

2. The following is added at the end of Paragraph 1:

This Agreement shall be extended until November 2, 2004.

IN WITNESS WHEREOF, the foregoing Agreement was executed effective as of August 9, 2001.

ESCO TECHNOLOGIES INC.

By:

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Alyson S. Barclay

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AGREEMENT entered into as of August 9, 2001 between ESCO Technologies Inc. ("Company") and Victor L. Richey, Jr. ("Executive").

WITNESSETH:

WHEREAS, the Company and the Executive entered into an Employment Agreement as of November 3, 1999 ("Agreement"); and

WHEREAS, the parties retained the right to amend the Agreement pursuant to Article 15 thereof; and

WHEREAS, the parties desire to amend the Agreement effective as of August 9, 2001;

NOW, THEREFORE, effective as of August 9, 2001, the Agreement is amended as follows:

3. The following is added at the end of Paragraph 1:

This Agreement shall be extended until November 2, 2004.

IN WITNESS WHEREOF, the foregoing Agreement was executed effective as of August 9, 2001.

ESCO TECHNOLOGIES INC.

By:

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Victor L. Richey, Jr.

ESCO TECHNOLOGIES INC.

COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

ADOPTED MAY 10, 2001

1. Purpose. The purpose of the Plan is to enable ESCO Technologies Inc. (the "Company") to compensate each non-employee member of the board of directors of the Company (such board of directors hereinafter referred to as the "Board" and each such non-employee member of the Board hereinafter referred to as the "Director") who contributes to the Company's success by his or her ability, ingenuity and knowledge, and to better ensure that the interests of such Director are more closely aligned with the interests of the Company's shareholders by paying a significant portion of his or her compensation in shares of the Company's common stock ("Common Stock").

2. Payment of Annual Retainer in Common Stock. Each Director shall be paid an annual retainer fee (the "Retainer Fee") payable partially in cash ( the "Cash Portion of the Retainer Fee") and partially in shares of Common Stock (the "Stock Portion of the Retainer Fee"). From time to time, the Human Resources and Ethics Committee of the Board ("HREC") shall determine the total amount of the Retainer Fee, the Cash Portion of the Retainer Fee and the Stock Portion of the Retainer Fee. The Cash Portion of the Retainer Fee and the Stock Portion of the Retainer Fee shall be payable or distributable, as applicable, in quarterly installments no later than the 15th business day of each quarter of the Company's fiscal year and shall represent consideration for services to be performed for the quarter then beginning; provided, that the HREC reserves the right to change the frequency of payment of the Retainer Fee.

3. Other Compensation. In addition to payment of the Retainer Fee provided for in Section 2, each Director shall be paid such additional cash fees for attendance at Board and Board Committee meetings as approved by the HREC from time to time.

4. Deferral of Compensation. Directors may elect to defer the receipt of all (but not less than all) of the quarterly installment of the Cash Portion of the Retainer Fee in stock equivalents and/or to defer the receipt of all (but not less than all) of the quarterly installment of the Stock Portion of the Retainer Fee in stock equivalents by executing and delivering an election form to the Company at such time and subject to such other conditions as the Company shall determine; provided, that any such election shall be applicable only to future Retainer Fees with respect to which the Director, at the time of election, has no current right to receive. Any newly elected Director may elect to defer Retainer Fees prior to the effective date of his or her election to the Board. Except as otherwise provided herein, the election to defer Retainer Fees shall be irrevocable as to amounts earned following such election and shall remain in effect until a new election form is delivered to the Company. Any such new election form shall apply only to future Retainer Fees.

(a) Deferred Compensation Account.

(i) The Company shall establish a deferred compensation

bookkeeping

account (the "Account") for each Director electing to defer Retainer Fees. As of the date a Retainer Fee would otherwise be paid to the Director (absent the deferral election), the Company shall credit to the Account the amount of Retainer Fees which the Director has elected to defer. The credit shall be in stock equivalents ("Stock Equivalents") only, determined as follows:

(a) For each share of Common Stock otherwise payable as the quarterly installment of the Stock Portion of the Retainer Fee which the Director elects to defer, the Company shall credit the Account with one Stock Equivalent.

(b) For the portion of the quarterly installment of the Cash Portion of the Retainer Fee which the Director elects to defer, the Company shall credit the Account with that number of Stock Equivalents equal to the dollar amount of such portion, divided by the Fair Market Value per share of the Common Stock (as hereinafter defined) on the first day of the corresponding quarter.

"Fair Market Value" as of any date shall mean the average of the high and low prices of the Common Stock on the New York Stock Exchange on such date (or on the most recent date on which Common Stock is traded).

(ii) The Account shall be credited, as of the payment date of any cash dividends paid on Common Stock, with additional Stock Equivalents equal to the product of the per share dividend and the number of Stock Equivalents credited to the Account and dividing such product by the Fair Market Value per share of the Common Stock as of the dividend payment date. The Account shall be credited, as of the payment date of any stock dividends paid on Common Stock with additional Stock Equivalents equal to the product of the per share dividend and the number of Stock Equivalents credited to the Account

(b) Distribution.

(i) Except as otherwise provided in the Plan, the balance in the Account shall be distributed to the Director commencing on the date which the Director has specified on the election form; provided, however, that such distribution must begin no later than the Director's 65th birthday or upon termination of the Director's service as a Director, whichever is later ("Commencement Date"). Distribution shall be made in cash (the "Cash Distribution") or in shares of Common Stock (the "Common Stock Distribution") as the Director shall elect in the election form; provided, that the portion of the Account representing the Stock Portion of the Retainer Fee which has been deferred may only be distributed in the form of a Common Stock Distribution. The Cash Distribution shall equal the number of Stock Equivalents then credited to the Account as of the Commencement Date multiplied by the Fair Market Value per share of Common Stock as of such date. If Cash Distribution is to be made in installments, the amount of such distribution shall be based upon the number of Stock Equivalents credited to the Account as of the date each installment is to be made, multiplied by the Fair Market Value per share of Common Stock as of each such date. The Common Stock Distribution shall equal the number of shares of Common Stock equal to the number of Stock Equivalents credited to the Account as of the Commencement Date; provided that Distribution of Common Stock shall be rounded down to the nearest whole share of Common Stock and any fractional share shall be paid in cash in an amount equal to the fractional share multiplied by the Fair Market Value per share as of the

Commencement Date.

(ii) Distribution shall be made either in a lump sum or, as specified on the Director's election form, in quarterly or annual installments, over a period not to exceed 5 years from the Commencement Date; provided, that Common Stock Distributions may not be made more frequently than semi-annually. An election to change the method (cash or stock) and/or frequency (semi-annually, annually, etc.) of distribution with respect to the Account must be received by the Company prior to January 1 of the calendar year in which distributions are to be made pursuant to such election and must be approved in advance by the HREC. The lump sum or first periodic installment shall be made by the Company as promptly as practicable, but not more than 60 days following the initial date of distribution as determined above.

(iii) Notwithstanding any other provisions hereof, in the event the Director is removed from the Board or terminates service on the Board on account of death, the balance in the Account shall be distributed in a lump sum within 60 days after January 1 of the following calendar year or at such earlier time as may be determined by the HREC (the "Distribution Date"). Otherwise, such distribution shall be made in accordance with the Director's election form in effect at his death or at the time of removal from the Board. A Cash Distribution shall equal the number of Stock Equivalents then credited to the Account as of the Distribution Date multiplied by the Fair Market Value per share of Common Stock as of the Distribution Date. A Common Stock Distribution shall equal the number of shares of Common Stock equal to the number of Stock Equivalents credited to the Account as of the Distribution Date.

(iv) In the event the Director becomes disabled (as determined by the HREC), the Commencement Date and/or payment schedule with respect to the balance in the Account may be accelerated by the HREC in its sole discretion.

(v) The Company shall deduct from all distributions hereunder any taxes required to be withheld by the federal or any state or local government.

#### 5. Change in Control.

(a) Notwithstanding any other provision of the Plan, if a Change in Control occurs and within one year subsequent to such Change in Control the Director ceases to serve as a member of the Board for any reason, the balance in the Account shall be paid in a lump sum to the Director, in the manner determined in paragraph 5(b) below, within 60 days after January 1 of the calendar year following the year in which such termination occurs, unless such Director has completed a new election form after the Change in Control but prior to his or her termination of service, in which case the provisions of paragraph (b) below will not apply.

(b) The payment determined under this paragraph 5(b) shall be a Cash Distribution in an amount equal to the greater of the following:

(i) the number of Stock Equivalents then credited to the Account multiplied by the Fair Market Value per share of Common Stock as of either (i) the date of termination of the Director's service on the Board (if such Common Stock is still in existence), or

(ii) the date of the Change in Control, whichever is greater; or

(ii) the number of Stock Equivalents then credited to the Account multiplied by the fair market value per share of the consideration received by holders of Common Stock in the Change in Control as of either (i) the date of termination of the Director's service on the Board, or (ii) the date of the Change in Control, whichever is greater.

A "Change in Control" shall be defined to mean (i) a merger, consolidation or reorganization of the Company in which, as a consequence of the transaction, the incumbent Directors immediately prior to such transaction do not constitute a majority of the directors of the continuing or surviving corporation; (ii) the acquisition, directly or indirectly, of the power to vote 50% or more of the outstanding Common Stock of the Company by any person, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934); or (iii) any sale or other transfer, in one or a series of transactions, of all or substantially all of the assets of the Company; unless, in any case, a majority of then-current Directors determines prior to such transaction or event that it shall not, for purposes of the Plan, be deemed a Change in Control.

(c) The Company shall promptly reimburse the Director for all legal fees and expenses reasonably incurred in successfully obtaining or enforcing any right or benefit provided under this Section.

6. Distribution of Common Stock. The maximum number of shares of Common Stock available for distribution pursuant to the Plan shall be 200,000 shares, subject to adjustment as set forth in Section 7. The shares of Common Stock issuable to Directors under the Plan shall be issued from shares held in the Company's treasury or other source as may be determined by the Company.

7. Adjustment to Shares of Stock Issuable Pursuant to Plan. In the event of any change in the outstanding shares of Common Stock of the Company by reason of any stock split, stock dividend or recapitalization of the Company, an equitable adjustment shall be made to the number of shares of Common Stock issuable under the Plan, the amount of the Stock Portion of the Retainer Fee set forth in Section 2 and the number of Stock Equivalents credited to the Account for any Director, as the HREC determines is necessary or appropriate, in its discretion, to give proper effect to such corporate action. Any such adjustment determined in good faith by the HREC shall be conclusive and binding for all purposes of the Plan.

8. Amendments. Section 5 of the Plan may not be amended or modified or terminated after the occurrence of a Change in Control with respect to benefits accrued as of such occurrence. The Plan may otherwise be amended, modified or terminated by the HREC at any time, provided that no such action shall reduce the amounts credited to the Account of any Director immediately prior to such action or change the time, method or manner of distribution of such Account.

9. Miscellaneous.

(a) The provisions of the Plan shall be binding upon and enforceable against

the Company and/or the continuing or surviving corporation in a Change of Control.

(b) Neither the Director nor any other person shall have any interest in any fund or in any specific asset of the Company by reason of amounts credited to the Account of a Director hereunder, or the right to exercise any of the rights or privileges of a shareholder (including the right to vote) with respect to any Stock Equivalents credited to the Account or to receive any distribution under the Plan except as expressly provided for in the Plan. Distributions hereunder shall be made from the general assets of the Company, and the rights of the Director shall be those of an unsecured general creditor of the Company.

(c) The Company may require that the Directors shall agree to acquire shares of Common Stock under the Plan for investment and not for resale or distribution except pursuant to a registration statement under the Securities Act of 1933 or an exemption from such registration, and may require that certificates representing such shares shall bear a customary restrictive legend to this effect.

(d) The interest of the Director under the Plan shall not be assignable by the Director or the Director's beneficiary or legal representative, either by voluntary assignment or by operation of law, and any such attempted assignment shall be ineffective to transfer the Director's interest; provided, however, that (i) the Director may designate beneficiaries to receive any benefit payable under the Plan upon death, and (ii) the legal representative of the Director's estate may assign his or her interest under the Plan to the persons entitled to any such benefit.

(e) Nothing contained herein shall impose any obligation on the Company to continue the tenure of the Director beyond the term for which such Director has been elected or prevent his or her removal.

(f) The Plan shall be interpreted by and all questions arising in connection therewith shall be determined by the HREC, whose interpretation or determination shall be conclusive and binding.

(g) If any amounts deferred pursuant to the Plan are found in a final judgment or other order to have been includible in gross income by a Director prior to payment of such amounts from his or her Account, such amounts shall be immediately paid to such Director, notwithstanding any election pursuant to Section 4.

(h) The provisions of the Plan shall be governed by and construed in accordance with the laws of the State of Missouri, without regard to the principles of conflicts of law which might otherwise apply.

10. Effective Date. The Plan shall become effective July 1, 2001.



ESCO TECHNOLOGIES INC.  
COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

ELECTION FORM

Pursuant to the ESCO Technologies Inc. Compensation Plan For Non-Employee Directors:

1. COMPENSATION TO BE DEFERRED:

// I hereby elect to defer payment of my Cash Portion of the Retainer Fee.

// I hereby elect to defer distribution of my Stock Portion of the Retainer Fee.

I understand that all deferrals will be credited as Stock Equivalents to my Deferred Compensation Account.

2. TYPE OF DISTRIBUTION:

Stock Portion of the Retainer Fee:

// Lump Sum - in shares

// Installments over \_\_\_years (may not exceed 5 years) in shares

// Semi-Annually in shares

// Annually in shares

Cash Portion of the Retainer Fee:

// Lump Sum - in cash

// Lump Sum - in shares

// Installments over \_\_\_years (may not exceed 5 years)

// Semi-Annually \_\_\_% in cash; \_\_\_% in shares

// Annually \_\_\_% in cash; \_\_\_% in shares

// Quarterly in cash

3. TIME OF DISTRIBUTION:

// Lump sum distribution to be made on \_\_\_\_\_.

// Installment distributions to commence on \_\_\_\_\_.

// Distribution to be made or commence on the effective date of my retirement as a Director of the Company.

4. DESIGNATION OF BENEFICIARY: In the absence of such designation, payment will be paid to your estate. (Please include social security number and address.)

Name	Address	Social Security Number
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5. This deferment will remain in effect with respect to each such subsequent quarter until such time as I may revoke the deferment or elect by later filings of this election form to extend the dates or alter the manner of payment that was specified in my most recent election. Such later filings shall apply only to Retainer Fees to be earned in the future.

Director: \_\_\_\_\_ Date: \_\_\_\_\_

2001 ESCO TECHNOLOGIES ANNUAL REPORT  
 FIVE-YEAR FINANCIAL SUMMARY

(Dollars in millions, except per share amounts)  
 2001(1)  
 2000(2)  
 1999(3)  
 1998(4)  
 1997(5) ----

-----  
 -----  
 -----

For years ended September 30: Net sales \$  
 344.9 300.2  
 416.1 365.1  
 378.5

Interest expense .1  
 .4 6.5 7.7

5.2 Earnings before income taxes  
 27.3 24.7  
 63.5 16.3

17.9 Net earnings before accounting change 30.1  
 16.8 50.5  
 11.3 11.8

Net earnings 30.1 16.8  
 25.5 11.3  
 11.8

Earnings per share:

Earnings before accounting change Basic 2.43 1.37  
 4.09 .94

1.00 Diluted 2.35 1.33

4.00 .90 .96  
 Net earnings Basic 2.43  
 1.37 2.06  
 .94 1.00

Diluted 2.35  
 1.33 2.02

.90 .96 As of September 30: Working capital 87.4  
 62.8 95.3  
 60.3 62.3

Total assets 375.6 331.1  
 378.4 409.3

378.2 Long-term debt 8.3 .6 41.9  
 50.1 50.0

Shareholders' equity 287.3  
 259.4 248.7  
 224.1 205.0

=====  
 =====  
 =====  
 =====  
 =====

- (1) Includes the acquisition of Bea. (see Footnote 2 of Notes to Consolidated Financial Statements). Also, includes the elimination of the net deferred tax valuation allowance of approximately \$12.7 million or \$0.99 per share.
- (2) Includes the acquisitions of Lindgren, Holaday, and Eaton Space Products and the sale of the Rantec microwave antenna business (see Footnote 2 of Notes to Consolidated Financial Statements). Also, includes the after-tax gain on the sale of the Riverhead, NY property of approximately \$2.2 million or \$0.18 per share and the after-tax gain on the sale of the Calabasas, CA property of approximately \$0.5 million or \$0.04 per share.
- (3) 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. (see Footnotes 1 and 2 of Notes to Consolidated Financial Statements)
- (4) Includes the acquisitions of Euroshield and AMT.
- (5) Includes the acquisition of Filtertek in February 1997.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. The years 2001, 2000 and 1999 represent the fiscal years ended September 30, 2001, 2000 and 1999, respectively, and are used throughout the document.

## Introduction

ESCO Technologies Inc. (ESCO, the Company) operates principally in four business segments: Filtration/Fluid Flow, Test, Communications and Other. ESCO develops, manufactures and markets a broad range of filtration products used in the separation, purification and processing of liquids and gases. The Company's engineered filtration products utilize membrane, precision screen and other technologies to protect critical processes and equipment from contaminants. Major applications include oil production and removal of contaminants in fuel, lube and hydraulic systems, various health care applications, including blood collection, food and beverage processing, potable water, and semiconductor production processes. ESCO is a leading supplier of radio frequency (RF) shielding and EMC test products. ESCO also supplies shielding to the growing Magnetic Resonance Imaging (MRI) market. The Company's Communications segment provides a well-proven communications system called TWACS(R) to the electric utility industry. The TWACS(R) system is currently used primarily for automatic meter reading (AMR) and its load management capabilities, and also provides a ready conduit into the home for future applications.

The Company's business segments are comprised of the following primary operating entities:

- Filtration/Fluid Flow: PTI Technologies Inc. (PTI) and Filtertek Inc. (Filtertek),
- Test: EMC Group consisting of EMC Test Systems, L.P. (ETS) and Lindgren RF Enclosures, Inc. (Lindgren),
- Communications: Distribution Control Systems, Inc. (DCSI) and Comtrak Technologies, L.L.C. (Comtrak),
- Other: Rantec Power Systems Inc. (Rantec),
- Systems & Electronics Inc. (SEI) is included as a divested business in 1999.

ESCO continues to operate with meaningful growth prospects in its primary served markets, and with considerable financial flexibility. The Company continues to focus on new products that incorporate proprietary design and process technologies. Management is committed to delivering shareholder value through internal growth, selective acquisitions and share repurchase when warranted.

## Highlights of 2001 Operations

Sales for the year ended September 30, 2001 increased \$44.7 million, or 15% to \$344.9 million compared to sales of \$300.2 million in 2000. Sales growth from acquisitions accounted for approximately \$28.6 million of the sales increase in 2001. New products introduced within the last three years accounted for \$70.1 million of 2001 sales. The Company's Communications segment continued to show strong year over year growth as sales increased 38% and approximately \$104 million of new orders were received in 2001.

Gross profit margin increased to 31.4% in 2001 compared to 30.6% in the prior year, reflecting positive results from the Company's ongoing cost reduction programs and product mix changes. Operating profit margin (defined as net sales, less cost of sales, less SG&A expenses) increased to 10.7% of net sales in 2001, compared to 10.0% of net sales in 2000. The Company's EBIT margin from operations improved by 0.5% in 2001 compared to 2000. EBIT is defined as earnings before interest and taxes.

In June 2001, the Company acquired Bea Filitri S.p.A. (Bea), headquartered in Milan, Italy. Bea is a supplier of filtration products to the pharmaceutical, food and beverage, health care, and petrochemical markets. Bea's operating results are included within the Filtration/Fluid Flow segment, since the date of acquisition.



Fiscal 2001 net earnings as reported, were \$30.1 million, or \$2.35 per share, compared to \$16.8 million, or \$1.33 per share, in 2000. During 2001, the Company's results were favorably impacted by an income tax adjustment of \$12.7 million, or \$0.99 per share, related primarily to the elimination of the Company's net deferred tax valuation allowance. Excluding this favorable income tax adjustment, 2001 net earnings from operations were \$17.4 million, or \$1.36 per share, compared to 2000 net earnings from operations of \$14.1 million, or \$1.11 per share. 2000 net earnings from operations exclude the after-tax gains from the sale of the Riverhead, NY and Calabasas, CA properties in 2000, which were approximately \$2.7 million, or \$0.22 per share.

#### Recap of 2000 Performance

The Company successfully completed three acquisitions during 2000: Lindgren, Holaday Industries, Inc. (Holaday), and the Eaton space products business (Eaton), formerly located in El Segundo, CA. The Lindgren and Holaday operating results are included within the Test segment and the Eaton results are included within the Filtration/Fluid Flow segment since the date of the respective acquisitions.

Fiscal 2000 sales increased \$56.9 million, or 23% to \$300.2 million over 1999 "adjusted" sales of \$243.3 million, mainly due to new product introductions and contributions from the 2000 acquisitions. Fiscal 2000 acquisitions contributed \$25.7 million to sales in 2000. Operating profit, as defined above, increased \$16.5 million to \$30.1 million in 2000 over 1999 "adjusted" operating profit of \$13.6 million.

Fiscal 2000's net earnings, as reported, were \$1.33 per share. In 2000, the Company sold properties in Riverhead, NY and Calabasas, CA, thereby, converting into cash properties retained after divestitures. Excluding the gains on the sale of these properties, 2000 net earnings from operations were \$1.11 per share compared to 1999 "adjusted" net earnings of \$0.61 per share. Refer to the table on page 21 of Management's Discussion and Analysis for the definition and reconciliation of "adjusted" net income in 1999.

#### 1999 Strategic Actions

In conjunction with the divestiture of SEI, the Company took a number of actions at September 30, 1999 to further sharpen its focus on its primary served markets. Other actions included abandoning the active pursuit of certain business areas, exiting non-core, underperforming businesses, and restructuring the corporate overhead of the Company.

#### Results of Operations

##### NET SALES

Net sales of \$344.9 million in 2001 increased \$44.7 million (14.9%) from net sales of \$300.2 million in 2000. Filtration/Fluid Flow, Test and Communications segments all had increased sales in 2001. Sales growth from acquisitions accounted for approximately \$28.6 million of the sales increase, with the balance coming from organic growth. New products introduced within the last three years accounted for \$70.1 million of 2001 sales.

Net sales of \$300.2 million in 2000 decreased \$115.9 million (27.9%) from reported net sales of \$416.1 million in 1999 due to the divestiture of SEI. The 1999 amount included SEI sales of \$172.8 million. Excluding SEI sales from the 1999 results, 2000 net sales increased \$56.9 million (23.4%) over 1999 "adjusted" net sales of \$243.3 million. Acquisitions contributed \$25.7 million to sales in 2000.

#### Filtration/Fluid Flow

Net sales of \$188.2 million in 2001 were \$6.5 million (3.6%) higher than net sales of \$181.7 million in 2000. Net sales increased in the health care and aerospace markets, offset by declines in the automotive and semiconductor markets. The current year acquisition of Bea contributed approximately \$2.0 million to the increase in sales. The incremental sales contribution from the fiscal 2000 acquisition of the Eaton space products business was approximately \$3.3 million in 2001.

Net sales of \$181.7 million in 2000 increased \$12.8 million (7.6%) from net sales of \$168.9 million in 1999, primarily due to new product introductions and increases in microfiltration sales. The acquisition of the Eaton space products business in fiscal 2000 contributed approximately \$3.4 million of the increase in sales.

Net sales increased \$22.5 million (35.6%) to \$85.5 million in 2001 compared to net sales of \$63.0 million in 2000. Fiscal 2001 reflected the full year contributions from Lindgren and Holaday. Sales of the Company's Magnetic Resonance Imaging (MRI) products increased in 2001 by more than 15%, attributable to the growing health care market. This was partially offset by a decrease in the sale of large EMC test chambers to electronics and telecommunications customers as a result of the softening of these markets. The General Motors contract contributed approximately \$4.6 million, \$13.2 million and \$3.1 million to sales in 2001, 2000 and 1999, respectively.

Net sales of \$63.0 million in 2000 increased \$28.1 million (80.5%) over the \$34.9 million in net sales recorded in 1999. The increase in 2000 over 1999 is primarily due to acquisitions, which contributed \$22.1 million. The remaining increase in 2000 over 1999 is primarily the result of additional EMC test chamber sales.

#### Communications

Net sales of \$59.1 million in 2001 were \$16.4 million (38.3%) higher than net sales of \$42.7 million in 2000. The increase in 2001 over 2000 is primarily the result of increased shipments to electric utility Cooperatives (Co-ops), together with continued shipments to other existing customers, such as Puerto Rico Electric Power Authority (PREPA), Wisconsin Public Service Corporation (WPS), and Florida Power & Light (FPL). The Company recorded approximately \$104 million in new orders for its two-way automatic communications systems and load control transponders during 2001.

The 2000 net sales increased \$16.9 million over the \$25.8 million in net sales recorded in 1999. The increase in 2000 over 1999, primarily is the result of increased shipments to PREPA, WPS and the Co-ops.

#### Other

Net sales were \$12.2 million in 2001, \$12.8 million in 2000 and \$13.7 million in 1999. The decrease in net sales is due to the sale of the Rantec microwave antenna business in February 2000, which contributed approximately \$2.1 million to sales in fiscal 2000 prior to its divestiture and contributed \$3.5 million to sales in 1999. Excluding the microwave antenna business from the 2000 results, net sales increased \$1.5 million or 14% in 2001.

#### ORDERS AND BACKLOG

Firm order backlog was \$180.1 million at September 30, 2001, compared to \$145.4 million at September 30, 2000. New orders totaling \$379.6 million were received in 2001, compared with \$288.7 million in 2000, reflecting a 31.5% increase. Approximately \$186 million of new orders in 2001 related to Filtration/Fluid Flow products, approximately \$79 million related to Test products, and approximately \$104 million related to Communications products (automatic meter reading and load control products).

#### GROSS PROFIT

The Company computes gross profit as: net sales less cost of sales. The gross profit margin is the gross profit divided by net sales, expressed as a percentage.

The gross profit margin was 31.4%, 30.6% and 22.7% in 2001,



2000 and 1999, respectively. The "adjusted" gross profit margin for 1999 was 27.6%. The increase in 2001 compared to 2000 is due primarily to a favorable sales mix and the results of the Company's ongoing cost improvement initiatives. The increase in 2000 compared to the reported 1999 results is due primarily to the lower margins in 1999 related to the defense businesses. Gross profit margin increased in 2000 compared to "adjusted" 1999 results due to operational improvements in all four operating segments, including favorable changes in sales mix and product pricing as well as successful cost containment programs.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (SG&A) for 2001 were \$71.5 million, or 20.7% of net sales, compared with \$61.8 million, or 20.6% of net sales for 2000. The increase in SG&A spending in 2001 is mainly due to the 2000 acquisitions being included for the entire fiscal year 2001, as well as additional investments in research and development, engineering, and marketing within the Filtration/Fluid Flow and Communications segments.

SG&A expenses in 2000 were \$61.8 million, or 20.6% of net sales, compared with \$74.4 million, or 17.9% of net sales for 1999. "Adjusted" SG&A expenses were \$53.6 million, or 22.0% of net sales in 1999. The 2000 SG&A expenses included \$4.9 million of additional expenses related to the 2000 acquisitions. The percentage decrease from "adjusted" 1999 SG&A expenses is the result of favorable leverage achieved on the higher sales volume.

#### OPERATING PROFIT

The Company evaluates the performance of its operating segments based on operating profit, which the Company defines as net sales, less cost of sales, and less SG&A expenses. Operating profit, as defined by the Company, excludes certain costs which are included in Other costs and expenses, net, in the Consolidated Statements of Operations, and which would be included in the determination of operating income as defined within generally accepted accounting principles. These items are discussed in the respective segment information below.

Operating profit of \$36.8 million (10.7% of net sales) in 2001 increased \$6.7 million (22.5%) from \$30.1 million (10% of net sales) in 2000. In 2001, operating profit dollars increased in all segments.

Operating profit of \$30.1 million (10% of net sales) in 2000 increased \$15.2 million (102%) from \$14.9 million in 1999. The 1999 operating profit amount included \$10.4 million related to SEI. Fiscal 2000 operating profit increased \$16.5 million over prior year "adjusted" operating profit of \$13.6 million.  
Filtration/Fluid Flow

Operating profit of \$16.8 million (8.9% of net sales) in 2001 increased slightly over operating profit of \$16.6 million (9.1% of net sales) in 2000. The current year was impacted by non-recurring costs related to the consolidation of the Eaton space products business into existing Company owned facilities and increases in other facility operating costs. In addition, during 2001, the Company made significant investments in new product development and market expansion opportunities, primarily in microfiltration.

Operating profit of \$16.6 million (9.1% of net sales) in 2000 was \$4.7 million (39.5%) higher than operating profit of \$11.9 million (7.0% of net sales) in 1999. The increase was primarily the result of new product introductions and increases in microfiltration profitability. Increased shipments of disposable water filter cartridges also contributed to the growth in profitability in 2000.  
Test

Operating profit increased approximately \$2.4 million to \$9.3 million (10.9% of net sales) in 2001 compared to \$6.9 million (11.0% of net sales) in 2000. The increase in 2001 is mainly due to the full year contributions from the Lindgren and Holaday acquisitions, which occurred in the second half of fiscal 2000, offset by a smaller revenue contribution from the General Motors contract which is nearing completion. Operating profit of \$6.9 million (11.0% of net sales) in 2000 was \$2.9 million (72.5%) higher than operating profit of \$4.0 million (11.5% of net sales) in 1999. The increase in 2000 over 1999, was primarily the result of contributions from the General Motors contract. Fiscal 2000 was also favorably impacted by the mid-year acquisitions mentioned above.

#### Communications

Operating profit of \$12.6 million (21.4% of net sales) in 2001 was \$3.7 million, or 41.6% higher than operating profit of \$8.9 million (20.8% of net sales) in 2000. Operating profit of \$8.9 million (20.8% of net sales) in 2000 was \$9.3 million higher than

operating profit of (\$0.4) million in 1999. The increase in operating profit in 2001 versus 2000, as well as 2000 versus 1999, in both dollars and as a percentage of net sales is due to increased shipments of automatic meter reading (AMR) equipment at DCSI. The Company is increasing its engineering and new product development expenditures in the Communications segment in order to continue its growth in the

AMR markets. The 1999 operating profit was impacted by certain nonrecurring charges at Comtrak, discussed on page 22 of Management's Discussion and Analysis. Other

Operating profit was \$1.4 million, (\$0.3) million and (\$8.8) million in 2001, 2000 and 1999, respectively. The increase in operating profit in 2001 over 2000, and in 2000 over 1999, is mainly related to the improved operations of Rantec's Power Systems business and the February 2000 sale of the microwave antenna business. The 1999 results were impacted by the nonrecurring charges related to the microwave antenna business, discussed on page 22.

#### INTEREST EXPENSE

Interest expense decreased to \$0.1 million in 2001 from \$0.4 million in 2000, primarily as a result of lower outstanding average borrowings throughout 2001. The timing of operating cash flows throughout 2001 also decreased the average outstanding borrowings.

Interest expense decreased to \$0.4 million in 2000 from \$6.5 million in 1999, primarily as a result of lower outstanding average borrowings throughout 2000. With the exception of \$1 million of foreign debt, all outstanding debt from fiscal 1999 was repaid in October 1999 from the proceeds of the sale of SEI.

#### OTHER COSTS AND EXPENSES, NET

Other costs and expenses, net, were \$9.4 million, \$8.0 million and \$4.9 million in 2001, 2000 and 1999, respectively. The 2001 net amount includes: Goodwill amortization of \$3.4 million; patent and other intangible amortization of \$1.4 million; approximately \$2.1 million of net costs related to the consolidation of PTI's filtration businesses into new facilities in Oxnard, CA and the consolidation of the Stockton, CA manufacturing facility into the Huntley, IL facility; and other miscellaneous costs.

Other costs and expenses, net, in 2000, of \$8.0 million consisted of the following items: Goodwill amortization of \$2.6 million; patent and other intangible amortization of \$1.3 million; approximately \$2.0 million of net costs related to the Filtration/Fluid Flow segment, including the consolidation of PTI's filtration businesses into new facilities in Oxnard, CA, expenses related to the planned upgrade of production equipment to improve manufacturing efficiency at Filtertek, and costs related to the microfiltration business; approximately \$1.0 million of net costs related to the Test segment primarily related to the write-off of an investment in a third party EMC related start-up company which filed bankruptcy in 2000; and other miscellaneous costs.

#### GAIN ON SALE OF PROPERTIES

The gain on the sale of properties in fiscal 2000 represents \$2.2 million from the sale of the Riverhead, NY property and \$0.8 million from the sale of the Calabasas, CA property. These properties were related to previously divested companies.

#### INCOME TAX (BENEFIT) EXPENSE

Income tax benefit of (\$2.8) million for 2001 reflects current tax expense of \$0.4 million, deferred tax benefit of (\$5.7) million, and foreign, state and local tax expense of \$2.4 million. Income tax expense of \$7.9 million for 2000 reflects current tax expense of \$0.3 million, deferred tax expense of \$6.3 million, and foreign, state and local tax expense of \$1.4 million.

Based on the Company's historical pretax income, together with the projection of future taxable income, 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, 2001. In order to realize the aforementioned net deferred tax asset, the Company will need to generate future taxable income of approximately \$154 million, of which \$130 million is required to be realized prior to the expiration of the net operating loss (NOL) carryforward, of which \$8 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; \$11 million will expire in 2018; and \$40 million will expire in 2019. The net operating loss carryforward will be available to reduce future Federal income tax cash payments.

In 2001, as the result of certain residual tax effects related to the 2000 sale of the property in Calabasas, CA, the Company utilized approximately \$2 million of the remaining \$33 million capital loss carryforward available from the sale of its Hazeltine subsidiary in 1996. The remaining capital loss carryforward of approximately \$31 million expired on September 30, 2001.

The valuation reserve in the amount of \$10.8 million maintained for the deferred tax asset related to the capital loss carryforward was eliminated due to the expiration of the capital loss carryforward. Additionally, in 2001 the Company eliminated its remaining net deferred tax valuation allowance of \$12.7 million, which was the allowance representing the amount of the deferred tax asset associated with temporary differences and NOLs which Management believed would likely not be realized due to limitations on future use.

The effective tax rate in 2001 was (10.4%), compared with 32.0% in 2000 primarily due to the favorable impact of the elimination of the net deferred tax valuation allowance. On an operational basis, Management estimates the 2001 effective tax rate would have been 36.1%, excluding the net favorable income tax adjustment of \$12.7 million, previously described. An analysis of the effective tax rates for 2001, 2000 and 1999 is included in the notes to the consolidated financial statements.

#### CHANGE IN ACCOUNTING PRINCIPLE - 1999

The Company adopted the provisions of Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities" in the first quarter of 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 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.

#### Capital Resources & Liquidity

Working capital increased to \$87.4 million at September 30, 2001 from \$62.8 million at September 30, 2000. During 2001, cash and cash equivalents increased by \$8.9 million. Inventories increased \$3.7 million primarily due to the 2001 acquisition of Bea. Other current assets increased by \$10.7 million primarily due to an increase in the current portion of deferred tax assets.

Net cash provided by operating activities was \$33.0 million in 2001 compared to \$20.0 million in 2000. The increase in 2001 is primarily due to the Company's additional earnings and improved working capital resulting from ongoing asset management initiatives.

Net cash provided by operating activities was \$20.0 million in 2000 compared to \$25.9 million in 1999. Net cash provided by operating activities in 2000 increased \$5.4 million from the 1999 adjusted amount of \$14.6 million, which excludes \$11.3 million related to SEI.

Capital expenditures of \$11.9 million, \$10.4 million and \$8.3 million, in 2001, 2000 and 1999, respectively, primarily included manufacturing equipment. Capital expenditures related to SEI were \$1.1 million in 1999. There were no commitments outstanding that were considered material for capital expenditures at September 30, 2001.

At September 30, 2001, the Company had available a net operating loss (NOL) carryforward for tax purposes of approximately \$130 million. This NOL will expire beginning in year 2006 and ending in year 2019, and will be available to reduce future Federal income tax cash payments.

#### ACQUISITIONS/DIVESTITURES

On June 8, 2001, the Company acquired all of the outstanding common stock of Bea Filtri S.p.A. (Bea) for approximately \$13.5 million in cash and debt. Bea, headquartered in Milan, Italy, is a supplier of filtration products to the pharmaceutical, food and beverage, healthcare, and petrochemical markets. Bea's assets and liabilities, and related operating results, since the date of acquisition, are included within the Company's Filtration/Fluid Flow segment.

On June 2, 2000, the Company purchased Holaday Industries, Inc. (Holaday) for approximately \$4 million in cash. Holaday, headquartered in Eden Prairie, MN, is a leading supplier of specialty measurement probes to the EMC test, health and safety, and

microwave markets. The operating results for Holaday, since the date of acquisition, are included within the Company's Test segment.

On April 9, 2000, the Company acquired all of the outstanding common stock of Lindgren RF Enclosures, Inc. (formerly known as The Curran Company) and Lindgren, Inc. (doing business through its subsidiary, Rayproof Ltd.) (collectively Lindgren) for approximately \$22 million in cash plus additional consideration based upon the future operating performance of Lindgren. Lindgren is a leading supplier of radio frequency (RF) shielding products and

components used by manufacturers of medical equipment, communications systems and electronic products. The operating results for Lindgren, since the date of acquisition, are included within the Company's Test segment.

On March 31, 2000, the Company acquired the Eaton space products business (Eaton), formerly located in El Segundo, CA, for approximately \$6 million in cash. Eaton manufactures specialty valves and other fluid flow components for satellite launch vehicles and aircraft applications and has been integrated into the Company's Filtration/Fluid Flow segment, since the date of acquisition.

All of the Company's acquisitions have been accounted for using the purchase method of accounting. The goodwill recorded as a result of the above transactions is being amortized over 20 years, until the adoption of SFAS 142.

In February 2000, the Company completed the sale of its microwave antenna product line, which had historically operated as part of Rantec Microwave & Electronics, Inc. The Company transferred the contract order backlog and operating assets of the microwave antenna business for \$2.1 million in cash, and in September 2000, sold the related land and buildings in Calabasas, CA for approximately \$6 million.

In December 1999, the Company sold the Riverhead, NY property, used by the Company's former Hazeltine subsidiary for approximately \$2.6 million.

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

#### BANK CREDIT FACILITY

On April 11, 2000, the Company entered into a \$75 million revolving credit facility, with the option to increase it to \$100 million through April 11, 2002. The credit facility was amended on February 28, 2001 to allow for borrowings in foreign currencies. The credit facility is available for direct borrowings and/or the issuance of letters of credit. The maturity of the credit facility is April 11, 2005, and is provided by a group of five banks, led by Bank of America. At September 30, 2001, the Company had approximately \$61.7 million available to borrow under the credit facility as well as \$14.5 million of cash on hand.

The credit facility requires, as determined by certain financial ratios, a commitment fee ranging from 20-30 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the London Interbank Offered Rate (LIBOR) 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 financial covenants of the credit facility include limitations on leverage and minimum consolidated EBITDA. As of September 30, 2001, the Company is in compliance with all bank covenants.

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.

#### SHARE REPURCHASE

In February 2001, the Company authorized an open market repurchase program of up to 1.3 million shares, which is subject to market conditions and other factors and covers the period ending September 29, 2003. Approximately 77,000, 516,000 and 177,000 shares were repurchased in 2001, 2000 and 1999, respectively. In June 2000, the Company initiated an odd lot share repurchase program which extended through September 2000 whereby the Company repurchased approximately 25,000 shares, which are included in the 516,000 of shares repurchased in 2000, above.

#### 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 and remediation 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.

## 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. The Company has interest rate exposure relating to floating rate lease obligations and, accordingly, during 2001, entered into interest rate swaps totaling approximately \$23 million to mitigate this exposure. In addition, the Company has interest rate exposure relating to floating rate obligations denominated in EURO dollars, therefore, in September 2001, the Company entered into an interest rate swap of approximately \$4 million to mitigate this exposure. These swaps are accounted for as cash flow hedges under the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" as of and for the year ended September 30, 2001.

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 certain foreign currency commitments by purchasing foreign currency forward contracts.

### New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001. SFAS 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

The Company is required to adopt the provisions of SFAS 141 immediately. Management expects to adopt the provisions of SFAS 142 effective October 1, 2001, the beginning of the Company's fiscal year 2002.

SFAS 141 will require that upon adoption of SFAS 142, the Company evaluate its existing intangible assets and goodwill, and make any necessary reclassifications in order to conform with the new criteria in SFAS 141. Upon adoption of SFAS 142, the Company plans to reassess the useful lives and residual values of all recorded intangible assets, other than goodwill, and make any necessary amortization period adjustments by December 31, 2001. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS 142 by December 31, 2001. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle. Upon adoption of SFAS 141 and SFAS 142, the Company does not anticipate a significant impact to the carrying value of the Company's goodwill.

1999 Strategic Actions

RECONCILIATION OF ADJUSTED NET INCOME - 1999

In conjunction with the divestiture of SEI, the Company took a number of actions at September 30, 1999 to further sharpen its focus on its primary served markets. Other actions included abandoning the active pursuit of certain business areas, exiting non-core, underperforming businesses, and restructuring the corporate overhead of the Company.

The following table is not intended to present 1999 net earnings as defined within generally accepted accounting principles (GAAP), and is presented for informational purposes only.

The table provides a reconciliation between the 1999 reported results of operations 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 comparing ESCO's subsequent financial performance.

1999 Elimination Adjusting 1999 (Dollars in millions, rounded) As Reported of SEI(a) Items 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 was being offered for sale in 1999 and was sold in February 2000. Fiscal 1999 net sales included \$4.9 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 on the following page, 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, representing the yields in effect in 1999.

(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.

OTHER CHARGES RELATED TO COST OF SALES, RESTRUCTURING CHARGES AND  
GAIN ON SALE OF SEI - 1999

The Company recognized certain nonrecurring items in the 1999 fourth quarter results of operations which resulted in \$3.9 million of other charges related to cost of sales and \$5.1 million of restructuring charges. In addition, in 1999, 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 High Pressure Air Reducing Quiet Manifolds for surface ships (\$2.2 million) and the Vehicle Location Systems (\$.6 million) business. Additionally, the Company wrote down the Rantec microwave antenna product line inventory (\$1.1 million) to net realizable value. The Rantec microwave business was sold in February 2000.

The 1999 restructuring charges were 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 the 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 other charges related to cost of sales noted above are included in the calculation of 1999 gross profit discussed above.

Forward-Looking Information

The statements contained in the Chairman's Letter to Shareholders (pgs. 2-5), the business summaries (pgs. 6-11), and Management's Discussion and Analysis that are not strictly historical are "forward looking" statements within the meaning of the safe harbor provisions of the federal securities laws. Investors are cautioned that such statements are only predictions, and speak only as of the date of this report. 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: further weakening of economic conditions in served markets; changes in customer demands or customer insolvencies; electricity shortages; competition; intellectual property matters; consolidation of internal operations; integration of recently acquired businesses; delivery delays or defaults by customers; performance issues with key suppliers and subcontractors; collective bargaining labor disputes; and the Company's successful execution of internal operating plans.

2001 ESCO TECHNOLOGIES ANNUAL REPORT  
CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended  
September 30,  
(Dollars in  
thousands,  
except per  
share  
amounts) 2001  
2000 1999 ---  
-----  
-----  
--- Net sales  
\$ 344,904  
300,157  
416,102 Costs  
and expenses:  
Cost of sales  
236,526  
208,263  
317,681 Other  
charges  
related to  
cost of sales  
-- -- 3,927  
Selling,  
general and  
administrative  
expenses  
71,537 61,819  
74,429  
Interest  
expense, net  
130 359 6,460  
Other, net  
9,438 7,969  
4,871 Gain on  
sale of  
properties --  
(2,989) --  
Restructuring  
charges -- --  
5,145 Gain on  
sale of SEI -  
- -- (59,867)  
-----  
-----  
----- Total  
costs and  
expenses  
317,631  
275,421  
352,646 -----  
-----  
-----  
- Earnings  
before income  
tax 27,273  
24,736 63,456  
Income tax  
(benefit)  
expense  
(2,834) 7,917  
13,001 -----  
-----  
-----  
Net earnings  
before  
accounting  
change 30,107  
16,819 50,455  
Cumulative  
effect of  
accounting  
change, net  
of tax -- --  
(25,009) -----  
-----  
-----  
-- Net  
earnings \$

30,107	16,819
25,446	
=====	
=====	
=====	
Earnings per	
share: Net	
earnings	
before	
accounting	
change: Basic	
\$ 2.43	1.37
4.09	Diluted
2.35	1.33
4.00	-----
--	-----
-----	
Net earnings:	
Basic \$ 2.43	
1.37	2.06
Diluted	2.35
1.33	2.02
-----	-----
-----	
--- Average	
common shares	
outstanding	
(in	
thousands):	
Basic	12,382
12,307	12,332
Diluted	
12,805	12,668
12,614	
=====	
=====	
=====	

See accompanying notes to consolidated financial statements.

2001 ESCO TECHNOLOGIES ANNUAL REPORT  
CONSOLIDATED BALANCE SHEETS

As of  
September  
30,  
(Dollars in  
thousands)  
2001 2000 -  
----- -

-----  
ASSETS  
CURRENT  
ASSETS:  
Cash and  
cash  
equivalents  
\$ 14,506  
5,620  
Accounts  
receivable,  
less  
allowance  
for  
doubtful  
accounts of  
\$1,122 and  
\$1,309 in  
2001 and  
2000,  
respectively  
61,351  
58,982  
Costs and  
estimated  
earnings on  
long-term  
contracts,  
less  
progress  
billings of  
\$21,913 and  
\$15,139 in  
2001 and  
2000,  
respectively  
6,637 6,141  
Inventories  
48,167  
44,457  
Other  
current  
assets  
20,769  
10,104 -----  
-----

-----  
Total  
current  
assets  
151,430  
125,304 ---  
-----

-----  
PROPERTY,  
PLANT AND  
EQUIPMENT:  
Land and  
land  
improvements  
2,561 2,545  
Buildings  
and  
leasehold  
improvements  
29,470  
27,477  
Machinery  
and  
equipment  
71,289  
65,564



Construction in progress	4,620	3,821
-----		
	107,940	
99,407 Less accumulated depreciation and amortization	42,902	
36,844 -----		
-----		
----- Net property, plant and equipment	65,038	
	62,563	
Excess of cost over net assets of purchases, businesses, less accumulated amortization of \$12,674 and \$9,245 in 2001 and 2000, respectively	102,163	
	90,997	
Deferred tax assets	38,573	
	30,808	
Other assets	18,373	
21,461 -----		
-----		
----- \$	375,577	
	331,133	
=====		
=====		

See accompanying notes to consolidated financial statements.

2001 ESCO TECHNOLOGIES ANNUAL REPORT  
CONSOLIDATED BALANCE SHEETS

As of  
September  
30, (Dollars  
in  
thousands)  
2001 2000 --  
-----

LIABILITIES  
AND  
SHAREHOLDERS'  
EQUITY

CURRENT

LIABILITIES:

Short-term  
borrowings  
and current  
maturities  
of long-term  
debt \$ 122

4,136

Accounts

payable

35,180

31,206

Advance

payments on

long-term

contracts,

less costs

incurred of

\$809 and

\$3,364 in

2001 and

2000,

respectively

1,534 2,903

Accrued

expenses

27,233

24,246 -----

-----

---- Total

current

liabilities

64,069

62,491 -----

-----

---- Other

liabilities

15,890 8,610

Long-term

debt 8,338

610 -----

-----

- Total

liabilities

88,297

71,711 -----

-----

-----

----

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	
13,409,934	
and	
13,224,834	
shares in	
2001 and	
2000,	
respectively	
134	132
Additional	
paid-in	
capital	
206,282	
205,514	
Retained	
earnings	
since	
elimination	
of deficit	
at September	
30, 1993	
99,649	
69,542	
Accumulated	
other	
comprehensive	
loss (6,518)	
(4,766) ----	
-----	
-----	
299,547	
270,422 Less	
treasury	
stock, at	
cost	
(985,469 and	
956,527	
common	
shares in	
2001 and	
2000,	
respectively)	
(12,267)	
(11,000) ---	
-----	
----- Total	
shareholders'	
equity	
287,280	
259,422 ----	
-----	
----- \$	
375,577	
331,133	
=====	
=====	

See accompanying notes to consolidated financial statements.

2001 ESCO TECHNOLOGIES ANNUAL REPORT  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Accumulated  
Years ended  
September  
30, Common  
Stock  
Additional  
Other -----  
-----  
Paid-in  
Retained  
Comprehensive  
Treasury (in  
thousands)  
Shares  
Amount  
Capital  
Earnings  
Income  
(Loss) Stock  
Total -----  
-----  
-----  
-----  
-----  
-----  
-----

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  
compen-  
sation 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 ----  
-----

Comprehensive  
income: Net  
earnings --  
-- -- 16,819  
-- -- 16,819  
Translation  
adjustments  
-----  
(2,896) --  
(2,896) ----  
-----

Comprehensive  
income -- --  
-----  
13,923 -----  
----- Stock  
options and  
stock  
compen-  
sation plans  
442 4 3,795  
-- -- 59  
3,858  
Purchases  
into  
treasury --  
-----  
(7,048)  
(7,048) ----  
-----  
-----  
-----  
-----

Balance,  
September  
30, 2000  
13,225 132  
205,514  
69,542  
(4,766)  
(11,000)  
259,422 ----  
-----

Comprehensive  
income: Net  
earnings --  
-- -- 30,107  
-- -- 30,107  
Translation  
adjustments  
-----  
(209) --  
(209)  
Minimum  
pension  
liability,  
net -- -- --  
-- (639) --  
(639)  
Interest  
rate swap  
adjustment,  
net -- -- --  
-- (904) --  
(904) -----  
-----

Comprehensive  
income -- --  
-----  
28,355 -----  
----- Stock  
options and  
stock  
compen-  
sation plans  
185 2 768 --  
-- 414 1,184



2001 ESCO TECHNOLOGIES ANNUAL REPORT  
CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended  
September  
30, (Dollars  
in  
thousands)  
2001 2000

1999 -----  
-----  
-- -----  
- -----

- Cash flows  
from  
operating  
activities:

Net earnings  
\$ 30,107  
16,819  
25,446

Adjustments  
to reconcile  
net earnings  
to net cash  
provided by  
operating  
activities:

Depreciation  
and  
amortization  
15,100  
14,185  
17,021

Changes in  
operating  
working  
capital  
(9,441)  
(20,532)  
11,271

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  
(5,669)

6,270 11,560  
Other 2,889  
3,259

(4,550) ----  
-----  
-----

---- Net  
cash  
provided by  
operating  
activities

32,986  
20,001  
25,890 -----  
-----  
-----

--- Cash  
flows from  
investing  
activities:

Capital  
expenditures  
(11,881)  
(10,363)  
(8,291)

(Acquisition)  
divestiture

of	
businesses	
(13,559)	
(29,996)	
85,000	-----
	-----
---	-----
Net cash	
(used)	
provided by	
investing	
activities	
(25,440)	
(40,359)	
76,709	-----
	-----
---	-----
Cash	
flows from	
financing	
activities:	
Proceeds	
from long-	
term debt	
7,356 80 96	
Principal	
payments on	
long-term	
debt (740)	
(49,322)	
(8,297) Net	
decrease in	
short-term	
borrowings	
(3,988)	
(8,506)	
(9,494)	
Purchases of	
common stock	
into	
treasury	
(1,681)	
(6,215)	
(1,562)	
Other,	
including	
exercise of	
stock	
options 393	
2,232 126 --	
	-----
-----	-----
-----	-----
Net	
cash	
provided	
(used by)	
financing	
activities	
1,340	
(61,731)	
(19,131)	---
	-----
-----	-----
-----	-----
Net	
increase	
(decrease)	
in cash and	
cash	
equivalents	
8,886	
(82,089)	
83,468 Cash	
and cash	
equivalents	
at beginning	
of year	
5,620 87,709	
4,241	-----
	-----
-----	-----
-----	-----
--	-----
Cash and	
cash	
equivalents	
at end of	
year \$	
14,506 5,620	



87,709  
 =====  
 =====  
 =====  
 Changes in  
 operating  
 working  
 capital:  
 Accounts  
 receivable,  
 net \$ 1,632  
 (10,907)  
 5,150 Costs  
 and  
 estimated  
 earnings on  
 long-term  
 contracts,  
 net (497)  
 (2,122)  
 12,891  
 Inventories  
 (1,650)  
 1,553  
 (9,230)  
 Other  
 current  
 assets  
 (10,665) 859  
 (1,402)  
 Accounts  
 payable  
 1,174 (704)  
 734 Advance  
 payments on  
 long-term  
 contracts,  
 net (1,369)  
 2,221  
 (6,821)  
 Accrued  
 expenses  
 1,934  
 (11,432)  
 9,949 -----  
 -----  
 -- \$ (9,441)  
 (20,532)  
 11,271  
 =====  
 =====  
 =====  
 Supplemental  
 cash flow  
 information:  
 Interest  
 paid \$ 425  
 867 6,579  
 Income taxes  
 paid 4,106  
 1,132 254  
 =====  
 =====  
 =====

See accompanying notes to consolidated financial statements.

1. Summary of significant accounting policies

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of ESCO Technologies Inc. (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 2001 presentation. Effective July 10, 2000, the Company changed its name from ESCO Electronics Corporation to ESCO Technologies Inc.

(b) BASIS OF PRESENTATION

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, 2001 and 2000.

(c) NATURE OF OPERATIONS

The Company is a leading supplier of engineered filtration products to the process, health care and transportation markets worldwide. The Company's filtration products include depth filters, membrane based microfiltration products and precision screen filters. The balance of the Company's sales is derived primarily from radio frequency (RF) shielding and EMC test products and special purpose communication systems, where the Company is well positioned in niche markets based on proprietary products.

The Company operates in four principal industry segments: Filtration/Fluid Flow, Test, Communications and Other.

(d) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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) 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.

(f) CASH AND CASH EQUIVALENTS

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

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

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

(h) INVENTORIES

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

(i) 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.

(j) 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. The excess of cost over the fair value of net assets is primarily being amortized over a period not exceeding 30 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. See further discussion below in "New Accounting Standards."

(k) IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to dispose.

(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 may be 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 Statement of Financial Accounting Standards (SFAS) No. 52 "Foreign Currency Translation" (SFAS 52). 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)	2001	2000
1999 -----		
-----		
-- Weighted Average Shares Outstanding		
-- Basic	12,382	12,307
	12,332	
Dilutive Options and Performance Shares	423	282
-----		
-----		
Adjusted Shares -- Diluted	12,805	12,668
	12,614	
=====		
=====		
=====		

Options to purchase 12,500 shares (at per share prices of \$25.18 - \$27.28), 95,500 shares (at per share prices of \$15.72 - \$19.22) and 176,000 shares (at per share prices of \$11.44 - \$19.22) were outstanding during the years ended September 30, 2001, 2000 and 1999, 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 various periods through 2011. Approximately 181,000, zero and 190,000 performance shares were outstanding but unearned at September 30, 2001, 2000 and 1999, respectively, and therefore, were not included in the respective years' computations of diluted EPS.

(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)

SFAS 130, "Reporting Comprehensive Income" requires the Company to report separately the translation adjustments of SFAS 52 defined above, changes to the minimum pension liability, and changes in fair value of the Company's interest rate swaps designated as a cash flow hedge, as components of comprehensive income or loss. Management has chosen to disclose the requirements of this Statement within the Consolidated Statements of Shareholders' Equity.

(r) ACCOUNTING CHANGE - 1999

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. The effect of this accounting change was recognized in the 1999 Consolidated Statement of Operations.

SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS 137 and 138 (SFAS 133) requires that all derivative instruments be recorded on the balance sheet at their fair value. The accounting treatment of changes in fair value is dependent upon whether or not a derivative instrument is designated as a hedge and if so, the type of hedge. For derivatives designated as a fair value hedge, the changes in fair value are recognized in other comprehensive income until the hedged item is settled and recognized in earnings. The Company has interest rate exposure relating to floating rate lease obligations and, accordingly, during 2001, entered into interest rate swaps totaling approximately \$23 million to mitigate this exposure. In addition, the Company has interest rate exposure relating to floating rate obligations denominated in EURO dollars, therefore, in September 2001, the Company entered into an interest rate swap of approximately \$4 million to mitigate this exposure. These interest rate swaps are accounted for as cash flow hedges under the provisions of SFAS 133 as of and for the year ended September 30, 2001. At September 30, 2001, other comprehensive income included an after-tax decline in fair value of approximately \$0.9 million.

(t) NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued SFAS 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001. SFAS 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

The Company is required to adopt the provisions of SFAS 141 immediately, and Management expects to adopt the provisions of SFAS 142 effective October 1, 2001, the beginning of the Company's fiscal year 2002.

SFAS 141 will require that upon adoption of SFAS 142, the Company evaluate its existing intangible assets and goodwill, and make any necessary reclassifications in order to conform with the new criteria in SFAS 141. Upon adoption of SFAS 142, the Company plans to reassess the useful lives and residual values of all recorded intangible assets, other than goodwill, and make any necessary amortization period adjustments by December 31, 2001. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS 142 by December 31, 2001. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle. Upon adoption of SFAS 141 and SFAS 142, the Company does not anticipate a material impact to the carrying value of the Company's goodwill.

2. Acquisitions/Divestitures

On June 8, 2001, the Company acquired all of the outstanding common stock of Bea Filtri S.p.A. (Bea) for approximately \$13.5 million in cash and debt. Bea, headquartered in Milan, Italy, is a supplier of filtration products to the pharmaceutical, food and beverage, healthcare, and petrochemical markets. Bea broadens the Company's microfiltration product offering and increases the Company's penetration in European markets. Bea's assets and liabilities, and related operating results, since the date of acquisition, are included within the Company's Filtration/Fluid Flow segment.

On June 2, 2000, the Company purchased Holaday Industries, Inc. (Holaday) for approximately \$4 million in cash. Holaday, headquartered in Eden Prairie, MN, is a leading supplier of specialty measurement probes to the EMC test, health and safety, and microwave markets. The operating results for Holaday, since the date of acquisition, are included within the Company's Test segment.

On April 9, 2000, the Company acquired all of the outstanding common stock of Lindgren RF Enclosures, Inc. (formerly known as The Curran Company) and Lindgren, Inc. (doing business through its subsidiary, Rayproof Ltd.) (collectively Lindgren) for approximately \$22 million in cash plus additional consideration based upon the future operating performance of Lindgren. Lindgren is a leading supplier of radio frequency (RF) shielding products and components used by manufacturers of medical equipment, communications systems and electronic products. The operating results for Lindgren, since the date of acquisition, are included within the Company's Test segment.

On March 31, 2000, the Company acquired the Eaton space products business (Eaton), formerly located in El Segundo, CA, for approximately \$6 million in cash. Eaton manufactures specialty valves and other fluid flow components for satellite launch vehicles and aircraft applications and has been integrated into the Company's Filtration/Fluid Flow segment, since the date of acquisition.



In February 2000, the Company completed the sale of its microwave antenna business, which had historically operated as part of Rantec Microwave & Electronics, Inc. The Company transferred the contract order backlog and operating assets of the microwave antenna business for \$2.1 million in cash, and in September 2000, sold the related land and buildings in Calabasas, CA for approximately \$6 million.

Assuming the acquisitions of Holaday, Lindgren and Eaton as well as the divestiture of the Rantec microwave antenna business had occurred on October 1, 1999, (the beginning of fiscal 2000), pro forma unaudited net sales, net earnings and diluted EPS for the year ended September 30, 2000 would have been approximately \$325 million, \$17.3 million and \$1.36 per share, respectively. These unaudited pro forma amounts are not necessarily indicative of the results of operations that would have occurred had these actions been completed on October 1, 1999, or of future results of operations.

On September 30, 1999, the Company completed the sale of its Systems & Electronics Inc. (SEI) subsidiary to Engineered Support Systems, Inc. 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 1999 consolidated statements of operations are the operating results of SEI prior to its divestiture as follows: net sales of \$172.8 million; cost of sales of \$139.6 million, SG&A expenses of \$21.6 million; other costs and expenses, net, of \$0.9 million; and earnings before income taxes of \$10.7 million.

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 financial results from these acquisitions have been included in the Company's financial statements from the date of acquisition. The goodwill recorded as a result of the transactions is being amortized over 20 years, until the adoption of SFAS 142.

### 3. Accounts receivable

Accounts receivable consist of the following at September 30, 2001 and 2000:

(Dollars in thousands)	2001	2000
Commercial	\$ 57,513	55,619 U. S.
Government and prime contractors	3,838	3,363
Total \$	61,351	58,982
	=====	=====

Commercial accounts receivable increased primarily due to the acquisition of Bea in 2001.

### 4. Inventories

Inventories consist of the following at September 30, 2001 and 2000:

(Dollars in thousands)	2001	2000
	-----	-----

Finished  
goods \$  
12,065  
8,709 Work  
in  
process--  
including  
long-term  
contracts  
17,089  
17,258 Raw  
materials  
19,013  
18,490 ---  
-----  
-----  
Total \$  
48,167  
44,457  
=====  
=====

Inventories increased approximately \$3.7 million mainly to support the near term sales demand and due to the acquisition of Bea in 2001.

5. Property, plant and equipment

Depreciation expense of property, plant and equipment for the years ended September 30, 2001, 2000 and 1999 was \$10.3 million, \$10.3 million and \$13.6 million (including SEI), 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, 2001, 2000 and 1999 amounted to \$6.8 million, \$5.0 million and \$6.3 million, 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, 2001 are:

(Dollars in thousands)	Years ending September 30: ----- ----- -----
	2002 \$
	5,628 2003
	5,188 2004
	4,676 2005
	4,171 2006
	and thereafter
	5,748 ----
	---- Total
	\$ 25,411
	=====

6. Income tax expense

For the year ended September 30, 2001, pre-tax earnings related to U.S. and non-U.S. tax jurisdictions are \$21.7 million and \$5.6 million, respectively. Fiscal 2000 and 1999 pre-tax earnings related to non-U.S. tax jurisdictions were insignificant. The principal components of income tax expense for the years ended September 30, 2001, 2000 and 1999 consist of:

(Dollars in thousands)	2001 2000 1999 ----- ----- -----
	-----
	-----
	Federal:
	Current
	(including
	Alternative
	Minimum
	Tax) \$ 413
	275 --
	Deferred
	(including
	elimination
	of
	valuation
	allowance)
	(5,669)
	6,270
	11,560
	State,
	local and
	non-U.S
	2,422
	1,372
	1,441 ----
	-----
	-----
	-----
	Total \$

(2,834)  
 7,917  
 13,001

=====  
 =====  
 =====

The actual income tax expense for the years ended September 30, 2001, 2000 and 1999 differs from the expected tax expense for those years (computed by applying the U.S. Federal corporate statutory rate) as follows:

(Dollars in thousands)  
 2001 2000  
 1999 -----  
 -----  
 -----  
 -----

Federal corporate statutory rate	35.0%	35.0%	
Change in tax valuation allowance:			
Utilization of capital loss carryforward	(2.5)	(4.3)	(19.3)
Elimination of valuation allowance	(46.5)	--	--
- Other	(3.2)	5.9	
State and local, net of Federal benefits	4.2	2.0	1.1
Non-U.S.	(2.8)	.5	
1.2 Other, net	2.2	2.0	
	(3.4)	-----	-----
	-----	-----	-----
Effective income tax rate	(10.4)%		
	32.0%	20.5%	

=====  
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2001 ESCO TECHNOLOGIES ANNUAL REPORT  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 2001 and 2000 are presented below:

	2001	2000	---
(Dollars in thousands)			
2001 2000 ---			
-----			
-----			
Deferred tax assets:			
Inventories, long-term contract accounting, contract cost reserves and others \$	4,243	2,644	
Pension and other postretirement benefits	3,535	3,846	
Net operating loss carryforward	45,361	48,345	
Capital loss carryforward	--	11,537	
Other compensation-related costs and other cost accruals	5,801	875	---
-----			
----- Total deferred tax assets	58,940	67,247	
Deferred tax liabilities:			
Plant and equipment, depreciation methods, acquisition asset allocations, and other	(5,089)		
(5,107)	-----		
-----			
--- Net deferred tax asset before valuation allowance	53,851	62,140	
Less valuation allowance	--	(24,237)	----
-----			
----- Net deferred tax assets \$	53,851	37,903	
=====			
=====			

Net deferred tax assets are classified in the Consolidated Balance Sheets as follows:

(Dollars

in	
2001	2000
-----	-----
Current deferred tax assets (included in Other current assets) \$	
15,278	7,095
Noncurrent deferred tax assets	
38,573	
30,808	---
-----	-----
-----	\$
53,851	
37,903	
=====	
=====	

Based on the Company's historical pretax income, together with the projection of future taxable income, 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, 2001. In order to realize the aforementioned net deferred tax asset, the Company will need to generate future taxable income of approximately \$154 million, of which \$130 million is required to be realized prior to the expiration of the net operating loss (NOL) carryforward, of which \$8 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; \$11 million will expire in 2018; and \$40 million will expire in 2019. The net operating loss carryforward may be used to reduce future income tax cash payments.

In 2001, as the result of certain residual tax effects related to the fiscal 2000 sale of the property in Calabasas, CA, the Company utilized approximately \$2 million of the remaining \$33 million capital loss carryforward available from the sale of its Hazeltine subsidiary in 1996. The remaining capital loss carryforward of approximately \$31 million expired on September 30, 2001.

The valuation reserve in the amount of \$10.8 million maintained for the deferred tax asset represented by the capital loss carryforward was eliminated by the expiration of the capital loss carryforward. In addition, in 2001, the Company eliminated its remaining net deferred tax valuation allowance of \$12.7 million, which was the allowance representing the amount of the deferred tax asset associated with temporary differences and NOLs which Management believed would likely not be realized due to limitations on future use.

7. Debt

Long-term debt consists of the following at September 30, 2001 and 2000:

(Dollars in thousands)	2001	2000
-----		
Long-term borrowings under the revolving credit facility \$	7,249	--
Other debt	1,200	746
Less current maturities of long-term debt (111)	(136)	----
-----		
Long-term debt \$	8,338	610
=====		
=====		

On April 11, 2000, the Company entered into a \$75 million revolving credit facility, with the option to increase it to \$100 million through April 11, 2002. The credit facility was amended on February 28, 2001 to allow for borrowings in foreign currencies. The credit facility is available for direct borrowings and/or the issuance of letters of credit. The maturity of the bank credit facility is April 11, 2005, and is provided by a group of five banks, led by Bank of America. At September 30, 2001, the Company had approximately \$61.7 million available to borrow under the credit facility as well as \$14.5 million of cash on hand.

The credit facility requires, as determined by certain financial ratios, a commitment fee ranging from 20-30 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the London Interbank Offered Rate (LIBOR) 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 financial covenants of the credit facility include limitations on leverage and minimum consolidated EBITDA. As of September 30, 2001, the Company is in compliance with all bank covenants.

During 2001 and 2000, the maximum aggregate short-term borrowings at any month-end were \$5.5 million and \$21 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were \$1.7 million and \$8.1 million, respectively; and the weighted average interest rates were 6.4% in 2001, 7.5% in 2000 and 6.3% in 1999. The letters of credit issued and outstanding under the credit facility totaled \$6.1 million and \$7.9 million at September 30, 2001 and 2000, respectively. Short-term borrowings under the credit facility totaled zero and \$4.0 million as of September 30, 2001 and 2000, respectively. Long-term borrowings under the revolving credit facility were \$7.2 million (related to the Bea acquisition and based in the local currency) and zero at September 30, 2001 and 2000, respectively. In addition, the Company has other borrowings in foreign countries of approximately \$1.2 million, of which \$0.1 million is due within one year.

8. Capital stock

The 13,409,934 and 13,224,834 common shares as presented in the



accompanying Consolidated Balance Sheets at September 30, 2001 and 2000 represent the actual number of shares issued at the respective dates. The Company held 985,469 and 956,527 common shares in treasury at September 30, 2001 and 2000, respectively.

In conjunction with the sale of SEI on September 30, 1999, the previously outstanding Deposit and Trust Agreement was terminated. The Company has various Stock Option Plans which permit the Company to grant key management employees (1) options to purchase shares of the Company's common stock or (2) stock appreciation rights with respect to all or any part of the number of shares covered by the options. All outstanding options were granted at prices equal to fair market value at the date of grant.

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

FY 2001 FY
2000 FY
1999 -----
-----
-----
-----
-----
-----
---
Estimated
Estimated
Estimated
Shares
Avg. Price
Shares
Avg. Price
Shares
Avg. Price
-----
-----
-----
-----
October 1,
792,699 \$
10.62
1,437,442
\$ 9.35
953,716 \$
8.61
Granted
175,250 \$
18.65
99,250 \$
12.90
522,600 \$
10.76
Exercised
(151,298)
\$ 9.18
(558,738)
\$ 7.37
(17,270) \$
7.72
Cancelled
(20,003) \$
12.91
(185,255)
\$ 12.16
(21,604) \$
12.00 -----
-----
-----
-----
-----
September
30,
796,648 \$
12.60
792,699 \$
10.62
1,437,442
\$ 9.35 At
September
30,
Reserved
for future
grant
342,063
405,566
242,725
Exercisable

370,854 \$  
 10.72  
 363,647 \$  
 10.65  
 698,464 \$  
 9.36

=====  
 =====  
 =====  
 =====  
 =====  
 =====  
 =====

Summary information regarding stock options outstanding at  
 September 30, 2001 is presented below:

OPTIONS  
 OUTSTANDING -----

-----  
 -----  
 -----

NUMBER WEIGHTED-  
 AVERAGE WEIGHTED  
 Range of  
 OUTSTANDING AT  
 REMAINING AVERAGE  
 Exercise Prices  
 SEPTEMBER 30,  
 2001 CONTRACTUAL  
 LIFE EXERCISE  
 PRICE -----

-----  
 -----  
 -----

----- \$5.93 -  
 \$7.37 100,797 5.0  
 YEARS \$ 6.56  
 \$9.14 - \$12.91  
 446,198 7.1 YEARS  
 \$10.93 \$14.19 -  
 \$19.22 206,153  
 8.4 YEARS \$17.01  
 \$21.44 - \$27.28  
 43,500 9.6 YEARS  
 \$22.90 -----

-----  
 ----- 796,648  
 7.3 YEARS \$12.60

=====  
 =====  
 =====

EXERCISABLE  
 OPTIONS  
 OUTSTANDING -----

-----  
 -----  
 -----

NUMBER WEIGHTED  
 Range of  
 EXERCISABLE AT  
 AVERAGE Exercise  
 Prices SEPTEMBER  
 30, 2001 EXERCISE  
 PRICE -----

-----  
 -----

----- \$5.93 -  
 \$7.37 100,797 \$  
 6.56 \$9.14 -  
 \$12.91 216,348  
 \$10.93 \$14.19 -  
 \$19.22 53,709  
 \$17.64 \$21.44 -  
 \$27.28 -- -- -----

-----  
 370,854 \$10.72

=====  
 =====  
 =====

The options have a ten year contractual life from date of issuance, expiring in various periods through 2011. The increase in exercised shares and cancelled shares in 2000 is mainly due to the sale of SEI. Employees of SEI had 90 days, subsequent to the divestiture, to exercise their exercisable stock options prior to their cancellation.

In February 2001, the Company authorized a stock repurchase program to purchase up to 1.3 million shares of its common stock in the open market, subject to market conditions and other factors, through September 30, 2003. Approximately 77,000, 516,000 and 177,000 shares were repurchased during fiscal years 2001, 2000 and 1999, respectively.

During 2001, the Board of Directors authorized, and the shareholders approved, the Performance Share Plan (the Plan). The maximum number of shares available for issue under the Plan was 532,814 shares. As of September 30, 2001, 331,831 shares have been awarded and 80,000 shares have been earned. At September 30, 2001, there were 40,000 shares of restricted stock outstanding.

In February 2000, the Company amended and restated the Preferred Stock Purchase Rights Plan such that each Right entitles the holder to purchase one one-hundredth of a share of preferred stock at an initial purchase price of \$60. The Rights remain in existence until February 3, 2010, unless renewed, redeemed earlier (at one cent per Right), exercised or exchanged under the terms of the 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 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 outstanding during 2001 and 2000 consistent with the provisions of this Statement, the Company's net earnings and net earnings per share would have been as shown in the table below:

Pro forma (Unaudited) (Dollars in thousands, except per share amounts)	2001	2000
	-----	-----
Net earnings \$	29,405	16,214
Net earnings per share:		
Basic	2.37	1.32
Diluted	2.30	1.28
	=====	=====

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 2001 and 2000, respectively: expected dividend yield of 0% in both periods; expected volatility of 37.5% and 29.2%, risk-free interest rate of 4.6% and 5.8%, and expected life based on historical exercise periods of 4.21 years and 4.06 years.

To determine the fair value of grants under the Performance Share Plans, the probability that performance milestones would be met was 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 37.9% and 38.3% in 2001 and 2000, 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. On September 30, 1999, the Company completed the sale of SEI to Engineered Support Systems, Inc. which accounts for significant

fluctuations in amounts in 2000 as compared to 1999.

2001 ESCO TECHNOLOGIES ANNUAL REPORT  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net periodic benefit cost for the years ended September 30, 2001, 2000 and 1999 is comprised of the following:

(Dollars in millions)	
2001	2000
1999	-----
-----	-----
Defined benefit plans:	
Service cost	\$ 1.4
	1.4 4.1
Interest cost	2.5
	2.1 6.7
Expected return on plan assets	(3.0) (2.8)
	(7.5)
Amortization of service costs	.1 .1
	.3
Net actuarial (gain) loss	(.5) (.5)
	.8
Curtailment gain	--
	(.7) (8.5)
Settlement loss	-- --
	2.9 -----
-----	-----
Net periodic benefit cost	.5
	(.4) (1.2)
Defined contribution plans	.7 .6
	.7 -----
-----	--
-----	-----
Total	\$ 1.2
	.2 (.5)
=====	
=====	
=====	

The Company recognized a curtailment gain in 2000 as a result of the sale of the Rantec microwave business in February 2000 and also recognized a curtailment gain and a settlement loss in 1999 as a result of the sale of SEI.

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 \$5.1 million, \$4.7 million and \$2.6 million, respectively, as of September 30, 2001, and \$2.1 million, \$1.3 million and zero, respectively, as of September 30, 2000.

The net benefit obligation of the Company's defined benefit pension plans as of September 30, 2001 and 2000 is shown below:

(Dollars in millions)	
2001	2000
-----	-----
-----	-----
Change in benefit obligation-	

- Net benefit obligation at beginning of year \$	29.6	27.1
Service cost	1.4	
Interest cost	2.5	
2.1 Plan amendments	.1	.2
Actuarial (gain) loss	3.9	.3
Gross benefits paid (1.0)	(.8)	
Curtailements	-- (.7)	---
-----		
--- Net benefit obligation at end of year \$	36.5	29.6
=====		
=====		

The plan assets of the Company's defined benefit pension plans at September 30, 2001 and 2000 are shown below:

(Dollars in millions)		
2001	2000	--
-----		
--- Change in plan assets: Fair value of plan assets at beginning of year \$	35.9	28.5
Actual return on plan assets	(6.8)	8.0
Employer contributions	-- .2	Gross benefits paid (1.0)
(.8)	-----	
-----		
Fair value of plan assets at end of year	\$ 28.1	35.9
=====		
=====		

Pension plan assets consist principally of marketable securities including common stocks, bonds, and interest-bearing deposits.



2001 ESCO TECHNOLOGIES ANNUAL REPORT  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's defined benefit pension plans recognized the following net amounts at September 30, 2001 and 2000:

(Dollars in millions)	
2001	2000
-----	-----
--- Funded status at end of year	
\$ (8.4)	6.3
Unrecognized prior service cost	
.5	.5
Unrecognized net actuarial (gain) loss	
4.1	(10.2)
-----	-----
---- Accrued benefit cost	
\$ (3.8)	
(3.4)	
=====	
=====	
Amounts recognized in the balance sheet consist of:	
Prepaid benefit cost	
\$ .2	.1
Accrued benefit cost	
(4.0)	(3.5)
Additional minimum liability	
(.8)	(.1)
Intangible asset	
.2	.1
Accumulated other comprehensive income	
.6	--
-----	-----
-----	
Accrued benefit liability (Included in Other liabilities)	
\$ (3.8)	
(3.4)	
=====	
=====	

The benefit obligations of the defined benefit plans as of September 30, 2001 and 2000 were based on discount rates of 7.25% and 7.75%, respectively, and an assumed rate of increase in compensation levels of 4.5% in 2001 and 2000.

The 2001, 2000 and 1999 pension expense for the defined benefit plans was based on a 7.25%, 7.75% and 7.75% discount rate, respectively, a 4.5%, 4.5% and 4% increase in compensation levels, respectively, and a 9.5%, 9.5% and 10% expected long-term rate of return on plan assets, respectively.

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)	
2001	2000
1999	-----
-----	-----
---- Service cost \$ -- .1	
.2 Interest cost .1 .1 .7	
Net amortization and deferral (.2) (.3)	
(.3)	
Curtailement gain recognized -- (.3) (8.7) --	
-----	-----
Net periodic postretirement benefit cost \$ (.1) (.4) \$ (8.1)	
=====	
=====	
=====	

The net benefit obligation for postretirement benefits at September 30, 2001 and 2000 is shown below:

(Dollars in millions)	
2001	2000
-----	-----
Net benefit obligation at beginning of year \$1.2 1.0	
Service cost -- .1	
Interest cost .1 .1	
Actuarial (gain) loss .5 .4	
Curtailements -- (.3)	
Gross benefits paid (.1)	
(.1) -----	
--- Net benefit obligation at end of year \$1.7	
1.2 =====	
=====	

2001 ESCO TECHNOLOGIES ANNUAL REPORT  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The plan assets for postretirement benefits at September 30, 2001 and 2000 are shown below:

(Dollars in millions)	
2001	2000
--	--
Fair value of plan assets at beginning of year \$ --	
--	--
Employer contributions	
.1	.1
Gross benefits paid (.1)	
(.1)	--
--	--
Fair value of plan assets at end of year \$ --	
--	--
====	====

The Company recognized the following net amounts for postretirement benefits at September 30, 2001 and 2000:

(Dollars in millions)	
2001	2000
-	-
-----	
Funded status at end of year	
\$ (1.7)	(1.2)
Unrecognized prior service cost --	
--	--
Unrecognized net actuarial (gain) loss	
(3.1)	(3.8)
-----	
Accrued benefit costs	
\$ (4.8)	
(5.0)	-----
----	
Amounts recognized in the balance sheet consist of-	
-	-
Accrued benefit liability (Included in Other liabilities)	
\$ (4.8)	
(5.0)	=====
=====	

The net benefit obligations of the plans as of September 30, 2001 and 2000 were based on discount rates of 7.25% and 7.75%, respectively. The September 30, 2001 net benefit obligation was based on a health care cost trend of 5.5% for fiscal 2001. The September 30, 2000 net benefit obligation was based on a health care cost trend of 6.5% for fiscal 2000, 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, 2001 net

benefit obligation by approximately \$45,000, while a 1% decrease in the health care cost trend rate for each year would decrease the September 30, 2001 net benefit obligation by approximately \$50,000.

The fiscal 2001 and 2000 net periodic benefit costs were based on discount rates of 7.25% and 7.75%, respectively. The net periodic benefit cost was based on an assumed health care cost trend of 5.5% for 2001 and 6.5% for 2000 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 2001 net periodic benefit cost by approximately \$3,900, 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 2001 net periodic benefit cost by approximately \$4,600.

10. Other financial data

Items charged to operations during the years ended September 30, 2001, 2000 and 1999 included the following:

(Dollars in thousands)	
2001	2000
1999	-----
-----	-----
Maintenance and repairs \$	
4,952	
4,870	
7,078	
Salaries and wages	
91,649	
78,206	
132,671	--
-----	-----
- Research and development costs:	
Company- sponsored	
\$ 9,396	
6,177	
7,716	
Customer- sponsored	
5,231	
3,961	
8,332	-----
-----	-----
Total	
\$14,627	
10,138	
16,048	
=====	
=====	
=====	

The increase in salaries and wages in 2001 compared to 2000 is due to the Company's acquisition activities. The decreases in salaries and wages and in research and development costs in 2000 compared to 1999 are due to the sale of SEI in 1999. The increase in research and development costs in 2001 compared to 2000 is mainly due to the Company's acquisition activities and increased spending in the Company's Communications segment related to product enhancements and additional product offerings. Accrued expenses included accrued employee compensation of \$9.1 million and \$7.5 million at September 30, 2001 and 2000, respectively. Other liabilities include the accrued benefit liabilities related to the Company's defined benefit pension plans, the accrued benefit liabilities related to the Company's postretirement benefits, miscellaneous tax liabilities, and liabilities related to the Company's cash flow hedges.

11. Business segment information

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company operates in four principal segments: Filtration/Fluid Flow, Test, Communications and Other. Filtration/Fluid Flow operations consist of PTI Technologies Inc. (PTI) and Filtertek Inc. (Filtertek). PTI develops and manufactures a wide range of filtration products and is a leading supplier of filters to the commercial aerospace market and microfiltration market. 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. Test segment operations represent the EMC Group, consisting of EMC Test Systems, L.P. (ETS) and Lindgren. The EMC Group is principally involved in the design and manufacture of EMC test equipment, test chambers, and electromagnetic absorption materials. The EMC Group also manufactures radio frequency (RF) shielding products and components used by manufacturers of medical equipment, communications systems, electronic products, and shielded rooms for high security data processing and secure communication. Communications operations consist of Distribution Control Systems, Inc. (DCSI) which is 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. Communications also includes the operations of Comtrak, L.L.C.

The Divested Business segment consists of Systems & Electronics Inc. (SEI). As of September 30, 1999, ESCO sold SEI to Engineered Support Systems, Inc. The Other segment is principally comprised of Rantec Power Systems Inc., formerly a part of Rantec Microwave & Electronics, Inc. (Rantec) which produces power supplies widely used in high performance displays, such as cockpit instrumentation, engineering workstations and medical imaging. Rantec's microwave antenna business was sold in February 2000. Accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1.

In accordance with SFAS 131, the Company evaluates the performance of its operating segments based on operating profit, which is defined as: net sales, less cost of sales, and less SG&A expenses. 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.

NET SALES Year		
ended September		
30, (Dollars in		
millions) 2001		
2000 1999 -----		
- -----		
Filtration/Fluid		
Flow \$188.2		
181.7 168.9		
Test 85.5 63.0		
34.9		
Communications		
59.1 42.7 25.8		
Other 12.1 12.8		

13.7 Divested  
Business -- --  
172.8 ----- --  
-----  
Consolidated  
totals \$344.9  
300.2 416.1  
=====

2001 ESCO TECHNOLOGIES ANNUAL REPORT  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OPERATING PROFIT Year ended September 30, (Dollars in millions) 2001 2000 1999 ----- -----		
Filtration/Fluid Flow \$16.8 16.6 11.9 Test 9.3 6.9 4.0 Communications 12.6 8.9 (.4) Other 1.4 (.3) (8.8) Divested Business -- -- 10.4 Reconciliation to consolidated totals (Corporate) (3.3) (2.0) (2.2) ----- --- -- ----- Consolidated totals \$36.8 30.1 14.9 ===== =====		

Operating profit, as defined by the Company, excludes certain costs which are included in Other costs and expenses, net, in the Consolidated Statements of Operations, and which would be included in the determination of operating income as defined within generally accepted accounting principles. In fiscal 2001, these items consist of approximately \$2.1 million of costs related to the Filtration/Fluid Flow segment as a result of the consolidation of PTI's filtration business into new facilities in Oxnard, CA; consolidation costs of the Stockton, CA manufacturing facility into the Huntley, IL facility; and other miscellaneous costs.

In 2000, these items consist of approximately \$2.0 million of net costs related to the Filtration/Fluid Flow segment as a result of the consolidation of PTI's filtration businesses into new facilities in Oxnard, CA; expenses related to the planned upgrade of production equipment to improve manufacturing efficiency at Filtertek; and costs related to the microfiltration business. In addition, related to the Test segment in 2000, are approximately \$1.0 million of Other costs and expenses, net, primarily related to the write-off of an investment in a third party EMC related start-up company which filed bankruptcy in 2000.

The 1999 operating profit includes \$3.9 million of other charges related to cost of sales and \$5.1 million of restructuring charges related to the strategic actions undertaken in 1999. The total nonrecurring charges included in 1999 operating profit amounted to \$9.1 million. The Other segment in 1999 also includes \$3.8 million of charges related to cost growth on certain development programs at Rantec Power Systems.

The Company is also presenting EBITDA by segment for informational purposes only. EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

EBITDA 2001 2000 ----- ----- ----- ----- ----- Year ended September 30, EBIT DEPRECIATION/ EBITDA EBIT Depreciation/ EBITDA (Dollars in millions) AMORTIZATION Amortization --		
--	--	--

```

-----
- -----
-----
----
Filtration/Fluid
Flow $11.5 10.8
22.3 12.4 10.7
23.1 Test 7.5
2.5 10.0 4.7
1.6 6.3
Communications
11.9 1.2 13.1
8.2 1.2 9.4
Other (Rantec &
Corporate)
(3.5) .6 (2.9)
(.2) .7 .5 ----
-----
- Consolidated
totals $27.4
15.1 42.5 25.1
14.2 39.3 =====
=====
=====
=====
=====

```



2001 ESCO TECHNOLOGIES ANNUAL REPORT  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

IDENTIFIABLE  
 ASSETS As of  
 September 30,  
 (Dollars in  
 millions) 2001  
 2000 1999 -----  
 -----  
 Filtration/Fluid  
 Flow \$213.4  
 198.2 195.0  
 Test 62.3 61.2  
 22.2  
 Communications  
 22.4 21.6 14.2  
 Other 7.5 7.4  
 18.9  
 Reconciliation  
 to consolidated  
 totals  
 (Corporate  
 assets) 70.0  
 42.7 128.0 ----  
 -----  
 - Consolidated  
 totals \$375.6  
 331.1 378.3  
 =====  
 =====  
 =====

Corporate assets consist primarily of deferred taxes and cash balances.

CAPITAL  
 EXPENDITURES,  
 NET Year ended  
 September 30,  
 (Dollars in  
 millions) 2001  
 2000 1999 -----  
 -----  
 Filtration/Fluid  
 Flow \$ 9.4 9.0  
 6.3 Test 1.1 .3  
 .2  
 Communications  
 .9 .5 .4 Other  
 .5 .6 .3  
 Divested  
 Business -- --  
 1.1 -----  
 -----  
 Consolidated  
 totals \$11.9  
 10.4 8.3 =====  
 =====  
 =====

Depreciation and amortization is included in the EBITDA table,  
 noted above.

GEOGRAPHIC  
 INFORMATION  
 Net sales  
 to  
 customers  
 (Dollars in  
 millions)  
 2001 2000  
 1999 -----  
 -----  
 -- North  
 America  
 \$276.3  
 234.6 346.9  
 Europe 43.4  
 46.1 37.0  
 Far East

15.0	9.5
23.5	Other
10.2	10.0
8.7	-----
-----	-----
--	
Consolidated	
totals	
\$344.9	
300.2	416.1
=====	
=====	
=====	

LONG-LIVED  
ASSETS  
(Dollars in  
millions)

2001	2000
1999	-----
-----	-----
North	
America	
\$53.8	55.9
63.8	Europe
11.2	6.7
7.5	-----
-----	-----
Consolidated	
totals	
\$65.0	62.6
71.3	=====
=====	=====

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. Commitments and Contingencies

At September 30, 2001, the Company had \$6.1 million in letters of credit outstanding as guarantees of contract performance.

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.

13. Quarterly financial information (Unaudited)

Dollars in  
 thousands,  
 FIRST  
 SECOND  
 THIRD  
 FOURTH  
 FISCAL  
 except per  
 share  
 amounts)  
 QUARTER  
 QUARTER  
 QUARTER  
 QUARTER  
 YEAR -----  
 -----  
 -----  
 -----  
 -----

2001 Net sales \$	82,871	86,905	87,862	87,266	344,904
Gross profit	25,245	27,230	28,015	27,888	108,378
Net earnings	3,978	4,287	4,557	17,285	30,107
Earnings per share (GAAP Reported):					
Basic	.32	.35	.37	1.39	2.43
Diluted	.31	.34	.35	1.35	2.35
Earnings per share (From Operations - pro					

forma)		
Basic	.32	
	.35	.37
	.37	1.41
Diluted		
	.31	.34
	.35	.36
	1.36	
=====		
=====		
=====		
=====		
2000 Net		
sales \$		
65,865		
70,062		
79,235		
84,995		
300,157		
Gross		
profit		
19,628		
21,576		
24,699		
25,991		
91,894 Net		
earnings		
5,056		
3,517		
3,708		
4,538		
16,819		
Earnings		
per share		
(GAAP		
Reported):		
Basic	.41	
	.29	.30
	.37	1.37
Diluted		
	.40	.28
	.29	.36
1.33	-----	
-----		
-----		
-----		
-----		
Earnings		
per share		
(From		
Operations		
- pro		
forma)		
Basic	.22	
	.29	.30
	.33	1.14
Diluted		
	.22	.28
	.29	.32
	1.11	
=====		
=====		
=====		
=====		
=====		

The 2001 fourth quarter GAAP Reported reflects the elimination of the net deferred tax valuation allowance of approximately \$12.7 million or \$0.97 per share.

The 2001 earnings per share From Operations - pro forma excludes the elimination of the net deferred tax valuation allowance of approximately \$12.7 million or \$0.99 per share.

The 2000 first quarter GAAP Reported net earnings reflects the impact of the after-tax gain on the sale of the Riverhead, NY property of approximately \$2.2 million or \$0.18 per share. The 2000 fourth quarter GAAP Reported net earnings reflects the after-tax gain on the sale of the Calabasas, CA property of approximately \$0.5 million or \$0.04 per share.

The 2000 earnings per share From Operations pro - forma excludes

the gains on the sale of the Riverhead, NY and the Calabasas, CA properties as described above.

THE BOARD OF DIRECTORS AND SHAREHOLDERS  
ESCO TECHNOLOGIES INC.:

We have audited the accompanying consolidated balance sheets of ESCO Technologies Inc. and subsidiaries as of September 30, 2001 and 2000, 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, 2001. 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 auditing standards generally accepted in the United States of America. 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 Technologies Inc. and subsidiaries as of September 30, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ KPMG LLP

St. Louis, Missouri  
November 13, 2001

#### Shareholders' Annual Meeting

The Annual Meeting of the shareholders of ESCO Technologies Inc. will be held at 10 a.m. Tuesday, February 5, 2002, at the Hilton St. Louis Frontenac Hotel, 1335 South Lindbergh Boulevard, St. Louis County, Missouri 63131. Notice of the meeting and a proxy statement were sent to shareholders with this Annual Report.

#### 10-K Report

A copy of the Company's 2001 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders without charge. Direct your written request to the Investor Relations Department, ESCO Technologies Inc., 8888 Ladue Road, Suite 200, St. Louis, Missouri 63124.

#### Investor Relations

Additional investor-related information may be obtained by contacting the Director of Investor Relations at (314) 213-7277 or toll free at (888) 622-3726. Information is also available through the Company's website at [www.escotechnologies.com](http://www.escotechnologies.com) or by email at [pmoore@escotechnologies.com](mailto:pmoore@escotechnologies.com).

#### Transfer Agent and Registrar

Shareholder inquiries concerning lost certificates, transfer of shares or address changes should be directed to:

Transfer Agent/Registrar  
Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016-3572  
1 (800) 368-5948  
E-mail: [info@rtco.com](mailto:info@rtco.com)

#### Capital Stock Information

ESCO Technologies Inc. common stock shares (symbol ESE) are listed on the New York Stock Exchange.

There were approximately 4,300 holders of record of shares of common stock at September 30, 2001.

Common Stock Market Prices

The Company's 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 fiscal 2001 and 2000.

2001  
 2000 -  
 -----  
 -----  
 -----  
 -----  
 -----  
 -----  
 -  
 Quarter  
 HIGH  
 LOW  
 High  
 Low --  
 -----  
 -----  
 -----  
 -----  
 First  
 \$21.50  
 \$16.38  
 \$12.63  
 \$ 9.50  
 Second  
 26.25  
 19.75  
 17.13  
 11.50  
 Third  
 32.67  
 23.67  
 20.13  
 15.50  
 Fourth  
 30.45  
 21.90  
 20.00  
 17.06  
 =====  
 =====  
 =====  
 =====



SUBSIDIARIES OF  
ESCO TECHNOLOGIES INC.

NAME -----	STATE OR JURISDICTION OF INCORPORATION OR ORGANIZATION -----	NAME UNDER WHICH IT DOES BUSINESS -----
Bea Filtri S.p.A.	Italy	Same
Comtrak Technologies, L.L.C.	Missouri	Same
Distribution Control Systems Caribe, Inc.	Puerto Rico	Same
Distribution Control Systems, Inc.	Missouri	Same
EMC Test Systems, L.P.	Texas	Same
ESCO Electronica De Mexico, S.A. de C.V.	Mexico	Same
ESCO Technologies Holding Inc.	Missouri	Same
Euroshield OY	Finland	Same
Filertek Inc.	Delaware	Same and Tek Packaging Division
Filertek BV	Netherlands	Same
Filertek de Puerto Rico, Inc.	Delaware	Same
Filertek do Brazil Industria E Commerico Limitada	Brazil	Same
Filertek SA	France	Same
Holaday Industries, Inc.	Minnesota	Same
Lindgren R.F. Enclosures, Inc.	Illinois	Same
PTI Advanced Filtration Inc.	Delaware	Same
PTI S.p.A.	Italy	Same
PTI Technologies Inc.	Delaware	Same
PTI Technologies Limited	England	Same
Rantec Power Systems Inc.	Delaware	Same
Rayproof Ltd.	England	Same
VACCO Industries	California	Same

Independent Auditors' Consent

The Board of Directors  
ESCO Technologies Inc.:

We consent to incorporation by reference in the registration statements (Nos. 33-39737, 33-47916, 33-98112, 333-92945, 333-77887, 333-96309 and 333-63930) on Form S-8 of ESCO Technologies Inc. of our report dated, November 13, 2001 relating to the consolidated balance sheets of ESCO Technologies Inc. and subsidiaries as of September 30, 2001 and 2000, 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, 2001, which report appears in the September 30, 2001 Annual Report on Form 10-K of ESCO Technologies Inc.

KPMG LLP

St. Louis, Missouri  
December 20, 2001