SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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, 1996

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period -------------- to --------------

Commission file number: 1-10596

ESCO Electronics Corporation
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Missouri	43-1554045
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
8888 Ladue Road, Ste. 200 St. Louis, Missouri	63124-2090
(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 Trust Receipts	New York Stock Exchange, Inc.
Common Stock, par value $0.01 per share	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

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 l0-K or any amendment to this Form l0-K. [X]

Aggregate market value of the Common Stock Trust Receipts held by non-affiliates of the registrant as of close of business on December 11, 1996: $111,750,522.

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

Number of Common Stock Trust Receipts outstanding at December 11, 1996: 11,799,171 Receipts.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 1996 (the "1996 Annual Report") (Parts I and II).

2. Portions of the registrant's Proxy Statement dated December 6, 1996 (Part III).

ESCO ELECTRONICS CORPORATION
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PART I

ITEM 1. BUSINESS

THE COMPANY

ESCO Electronics Corporation ("ESCO") is a holding company for seven operating subsidiaries consisting of: Systems & Electronics Inc. ("SEI"), Rantec Microwave & Electronics, Inc. ("Rantec"), PTI Technologies Inc. ("PTI"), Vacco Industries ("Vacco"), Distribution Control Systems, Inc. ("DCSI"), EMC Test Systems, L.P. ("ETS") and PTI Technologies Limited ("PTI Limited"). These operating subsidiaries are wholly-owned subsidiaries of Defense Holding Corp. ("DHC"), a wholly-owned subsidiary of ESCO. ESCO and its direct and indirect wholly-owned subsidiaries are hereinafter referred to collectively as the "Company".

These operating subsidiaries are engaged in the research, development, manufacture, sale and support of a wide variety of defense and commercial systems and products. Defense items principally are supplied to the United States Government under prime contracts with the Army, Navy and Air Force and under subcontracts with their prime contractors, and are also sold to foreign customers. Commercial items are supplied to a variety of customers worldwide. The Company's businesses are subject to a number of risks and uncertainties, including without limitation those discussed below. See also Item 3. "Legal Proceedings" and "Management's Discussion and Analysis" appearing in the 1996 Annual Report.

On July 22, 1996, ESCO sold its Hazeltine Corporation ("Hazeltine") subsidiary to GEC-Marconi Electronic Systems Corporation ("GEC-Marconi").

PRODUCTS

The Company operates in two principal industry segments: defense and commercial. Prior to its divestiture, Hazeltine primarily operated within the defense segment. See Note 11 of the Notes to Consolidated Financial Statements in the 1996 Annual Report, which Note is herein incorporated by reference.

DEFENSE PRODUCTS

The Company's defense products are described below. Current activity includes the development of new products as well as production and support, in the form of spare parts and service, of existing products.

DEFENSE ELECTRONICS

Defense electronics equipment is designed and manufactured by SEI and Rantec. These subsidiaries primarily produce a diverse mix of military equipment which includes, but is not limited to, the following product lines:

* SEI produces airborne radar systems for ground mapping, weather imaging, terrain following and fire control applications. All of these products have completed the production phase and are currently in the spares support phase.

* SEI also supplies electronic systems for the detection and identification of threat radar and a lightweight man-portable surveillance radar that detects and classifies moving personnel, vehicles, low flying aircraft and artillery round impact.

* Automatic test equipment (ATE) for ground support of radar and other avionics equipment is also

produced by SEI. Current activity in this area is concentrated on development and production of mobile electronic test sets. These portable test sets are utilized for testing equipment on high performance fighter aircraft as well as a specialized military transport aircraft. In addition, SEI is currently developing a high power device test system which will be a part of the U.S. Navy's family of avionics test equipment. SEI also provides interface adapters and test program software to meet the needs of each particular unit under test.

* Rantec produces microwave antennas and antenna mounting and positioning systems for airborne radar, missile guidance, electronic warfare, military air traffic control and communications. Rantec also produces power systems for use in electronic warfare and cockpit display systems.

Prior to its divestiture, Hazeltine's primary product lines in the defense electronics category were:

* Electronic identification and support equipment for use on tactical aircraft, ships and ground-based radar sites, both mobile and fixed, including airborne Identification Friend or Foe (IFF) equipment and a combined interrogator transponder (CIT) that has been integrated into several types of fighter aircraft.

* Jam-resistant, tactical communications equipment, which feature technologies such as advanced waveforms and antennas, adaptive processing, and advanced networks and architectures. Examples include secure packet-switched networks, data links and a highly flexible, tri-service, multi-band, multi-mode, multi-waveform tactical radio.

* High-resolution displays used on early-warning aircraft.

* Anti-submarine warfare equipment including UHF satellite communications buoys for submarines and other underwater vehicles; communications receivers for anti-submarine aircraft; advanced acoustic countermeasure systems providing enhancement of submarine self defense; high frequency sonar arrays for submarines to provide mine avoidance and improved under-ice navigation; and acoustic transducers for surface ships and submarines.

DEFENSE SYSTEMS

SEI supplies light, medium and heavy transportation systems and weapon subsystems to the armed forces. Currently in production is a multiple-wheeled trailer with individually steerable axles for transporting large battle tanks. In fiscal year 1996, this product (the M1000 trailer) contributed $34.0 million in sales revenue; in fiscal year 1995, $64.5 million; and in fiscal year 1994, $41.7 million. SEI also supplies high-capacity aircraft cargo loaders which aid in rapid tactical deployment, and is currently developing a 60,000 pound capacity cargo loader for the U.S. Air Force. Further, SEI produces tactical bridging systems and missile canisters for an air defense missile launching system.

SEI also designs and manufactures launching and guidance systems utilizing electro-optic technology for anti-armor missiles. These systems are manufactured in differing configurations for installation on a variety of helicopters as well as armored vehicles. SEI is currently developing the mission equipment package for the Bradley Fire Support Team Vehicle, which is used to direct artillery fire or locate and designate enemy targets for laser guided weapons.

COMMERCIAL PRODUCTS

The Company's commercial products are described below.

FILTRATION/FLUID FLOW

PTI and PTI Limited develop and manufacture a wide range of filtration products. PTI is a leading supplier of filters to the commercial aerospace market. PTI's industrial business includes the supply of filtration solutions to the industrial and mobile fluid power markets and petrochemical processing industry. PTI also manufactures microfiltration and ultrafine filtration products used in a variety of commercial markets and applications. PTI Limited is a manufacturer and distributor of filter products, primarily in the European industrial marketplace. Vacco and PTI jointly develop and manufacture industrial filtration elements and systems primarily used within the petrochemical and nuclear industries, where a premium is placed on superior performance in a harsh environment. Vacco also supplies latch valves, check valves and filters to the aerospace industry, primarily for use on satellites. Vacco uses its etched disk technology to specialize in quiet valves and manifolds for U.S. Navy applications.

COMMUNICATIONS/TEST

ETS designs and manufactures electromagnetic compatibility (EMC) test equipment. It also supplies controlled radio frequency testing environments (anechoic chambers), shielded structures for high security data processing, and electromagnetic absorption materials. ETS's products include antennas, towers and turntables, field probes, calibration equipment and other accessories required for performing EMC testing. ETS also supplies TEM (transverse electromagnetic mode) and GTEM! (gigahertz - transverse electromagnetic mode) test cells and associated test software. These cells and, in particular, the GTEM! provide a controlled environment for quickly performing both emission and immunity testing with minimal test setup changes.

DCSI is a leading manufacturer of two-way power line communication systems for the utility industry. These systems, based on patented communications technology, provide the electric utilities with demand-side management, distribution automation, and automatic meter reading capabilities, thus improving the efficiency of power delivery to the consumer of electric energy.

Rantec designs and manufactures antennas and feeds for commercial uses, including an electronically scanned antenna used for control and navigation of air traffic. Rantec has also developed and will produce a commercial satellite cross-link antenna for use on the IRIDIUM(R) system, a forthcoming communications satellite system. Rantec also produces satellite antenna systems for use on commercial aircraft for in-flight entertainment.

SEI has extensive experience in the design and manufacture of location systems for military applications. SEI used this technological expertise to develop a vehicle location, tracking and communications system which will have applications in theft deterrence, fleet management and messaging communications.

Prior to its divestiture, Hazeltine's primary product in the communications category was a line of intelligent antenna systems for the commercial wireless communications marketplace including planar, multi-beam and adaptive array-based products.

OTHER INDUSTRIAL PRODUCTS

SEI supplies electronic sorting and material handling equipment to the United States Postal Service and other customers.

Rantec designs and manufactures various power supplies, principally for high resolution computer and avionics displays and other industrial equipment.

MARKETING AND SALES

The Company's defense products predominantly 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. Direct and indirect sales to the U.S. Government accounted for approximately 53%, 70% and 74% of the Company's total sales in the fiscal years ended September 30, 1996, 1995 and 1994, respectively. Hazeltine's U.S. Government sales in those years represented 16%, 21% and 21%, respectively, of the Company's total sales. See Notes 2 and 11 of the Notes to Consolidated Financial Statements in the 1996 Annual Report, which Notes are herein incorporated by reference.

The Company's commercial products generally are distributed to original equipment manufacturers and aftermarket users through a domestic and foreign network of distributors and sales representatives. Utility communication systems are sold directly to the electric utilities.

International sales accounted for approximately 33%, 29% and 24% of the Company's total sales in the fiscal years ended September 30, 1996, 1995 and 1994, respectively. The increase in fiscal year 1996 was primarily due to additional sales of the CIT at Hazeltine prior to its divestiture, volume increases at PTI Limited and additional weapons systems sales at SEI. Hazeltine's international sales in the fiscal years ended September 30, 1996, 1995 and 1994 amounted to 13%, 13% and 9%, respectively, of the Company's total sales. See Notes 2 and 11 of the Notes to Consolidated Financial Statements in the 1996 Annual Report. Predominantly, these international sales involve defense products. Since most of the Company's foreign export sales involve technologically advanced products, services and expertise, U.S. export control regulations limit the types of products and services that may be offered and the countries and governments to which sales may be made. The Department of State issues and maintains the International Traffic in Arms Regulations pursuant to the Arms Export Control Act. Pursuant to these regulations, certain products and services cannot be exported without obtaining a license from the Department of State. Most of the defense products that the Company sells abroad cannot be sold without such a license. Consequently, the Company's international sales may be adversely affected by changes in the U.S. Government's export policy or by any suspension or revocation of the Company's foreign export control licenses.

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

For its defense products, the Company maintains a domestic field marketing/sales network with offices located in the Washington, D.C. area and at several major U.S. Government defense procurement centers. The Washington, D.C. office carries out legislative and customer liaison activities with all branches of the U.S. armed services and liaison activities with foreign government offices in the Washington, D.C. area. The primary responsibility for individual products or programs is handled within the product line organizations, with the field organization providing closely coordinated assistance.

GOVERNMENT DEFENSE CONTRACTS

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

In addition, the Company's prime and subcontracts provide for termination for default if the Company fails to perform or breaches a material obligation. In the event of a termination for default, the customer may have the unilateral right at any time to require the Company to return unliquidated progress payments pending final resolution of the propriety of the termination for default. If the customer purchases the same or similar products from a third party, the Company may also have to pay the excess, if any, of the cost of purchasing the substitute items over the contract price in the terminated contract. A customer, if it has suffered other ascertainable damages as a result of a sustained default, could demand payment of such damages by the Company.

The Company incurs significant work-in-progress costs in the performance of U.S. Government contracts. However, the Company is usually entitled to invoice the Government for monthly progress payments. The current progress payment rate is 75%; however, there is no assurance that this rate will not change in the future. Any reduction in the rate would increase the amount of working capital required for these contracts. The Government does not recognize interest as an allowable contract expenditure; therefore, a progress payment rate decrease may have an adverse effect on the Company's cash flow and profitability.

The Company's backlog includes firm fixed-price U.S. Government contracts, development programs and production programs in their early phases. These programs have inherently high risks associated with design, first article testing and customer acceptance. The profitability of such programs cannot be assured, and they could represent exposure to the Company. In the event of development or production problems that are not actually or constructively caused by the customer, the Company would have the responsibility for proposing and providing curative action with no additional compensation. In the event the customer does not accept the curative action or the curative action does not succeed, the contract could be terminated for default.

In connection with the Company's U.S. Government business, the Company is also subject to Government investigations of its policies, procedures and internal controls for compliance with procurement regulations and applicable laws. The Company may be subject to downward contract price adjustments, refund obligations or civil and criminal penalties, and suspension or debarment from Government contracting. It is the Company's policy to cooperate with the Government in any investigations of which it has knowledge, but the outcome of any such Government investigations cannot be predicted with certainty.

As a U.S. Government contractor, the Company faces additional risks, including dependence on Congressional appropriations and administrative allotment of funds, changes in Governmental policies which may reflect military and political developments, substantial time and effort required for design and development, significant changes in contract scheduling, complexity of designs and the rapidity with which products become obsolete due to technological advances, constant necessity for design improvements, intense competition for available Government business, and difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work (possibly resulting in unforeseen technological difficulties and/or cost overruns). Foreign sales involve additional risks due to possible changes in economic and political conditions. See "Marketing and Sales" above.

As a U.S. Government contractor, recognition of revenue is based upon certain accounting policies described in Note 1(f) of the Notes to Consolidated Financial Statements in the 1996 Annual Report, which Note is herein incorporated by reference. The Company periodically reviews contracts in the ordinary course to ascertain if customer actions or inactions have caused or will cause increased costs. The Company has submitted requests for equitable adjustments ("REAs") and claims seeking additional compensation, which involve substantial amounts of money. To the extent these REAs and claims are finally resolved for less than the amounts anticipated, the Company's financial position and operating results could be adversely affected.

INTELLECTUAL PROPERTY

Although the Company owns or has other rights in various forms of intellectual property (i.e., patents, trademarks, copyrights, mask works and other items), it believes that currently its business is not materially dependent on intellectual property rights. With respect to patents in particular, most of the Company's U.S. Government contracts authorize it to use U.S. patents owned by others if necessary in performing such contracts. Corresponding provisions in Government contracts awarded to other companies make it impossible for the Company to prevent others from using its patents in most domestic defense work. However, as the Company expands its presence in commercial markets, it is placing a greater emphasis on developing intellectual property and protecting its rights therein.

BACKLOG

The backlog of firm orders was approximately $246.7 million at September 30, 1996 and approximately $530.9 million at September 30, 1995. However, firm order backlog at September 30, 1995 was $294.6 million as adjusted to remove Hazeltine's backlog. As of September 30, 1996, it is estimated that: (i) defense business accounted for approximately 65% of the firm orders and commercial business accounted for approximately 35%, and (ii) domestic customers accounted for approximately 79% of the firm orders and foreign customers accounted for approximately 21%. Of the total backlog of orders at September 30, 1996, approximately 88% (including all commercial orders) is expected to be completed in the fiscal year ending September 30, 1997.

PURCHASED COMPONENTS AND RAW MATERIALS

The Company's products require a wide variety of components and materials. Although the Company has multiple sources of supply for most of its material requirements, certain components are supplied by sole-source vendors, and the Company's ability to perform certain contracts depends on their performance. In the past, these required raw materials and various purchased components generally have been available in sufficient quantities.

COMPETITION

The Company faces intense competition from a large number of firms for nearly all of its products. The principal competitive factors are price, service, quality, technical expertise and the ability to design and manufacture products to desired specifications.

The reduced military threat posed by the former Soviet Union and the continued domestic pressure to balance the Federal budget have led to reductions in U.S. defense spending for production equipment. These reductions have resulted in recent consolidations within the defense industry. In addition, the U.S. Government's increasing willingness to purchase commercial products where feasible will introduce new competitors in traditional defense markets. Further, the U.S. Government's adoption of the Foreign Comparison Test program, wherein the Government evaluates foreign products as a potential alternative to products developed by U.S. suppliers, is also expected to increase competitive pressures in these markets. These factors have all contributed to a highly competitive marketplace for defense products. In the international defense markets, the continuing decline in business in most areas in which the Company participates together with the globalization of competition have resulted in a highly competitive environment. The Company has formed alliances with several foreign companies in order to strengthen its competitive position in these markets. Political factors also enter into foreign sales, including a foreign government's evaluation of the Company's willingness to subcontract work content to companies located in the foreign country involved.

For most of its defense products and many of its commercial products, the Company's competitors are larger and have greater financial resources than the Company. As budgets decline, larger prime contractors may retain work which previously would have been subcontracted. Although the Company is a leading supplier in several of the markets it serves, the Company maintains a relatively small share of the business in many of the markets in which it participates. Because of the diversity and specialized nature of the Company's products, it is impossible to state precisely its competitive position with respect to each of its products. Substantial efforts are required in order to maintain existing business levels.

The Company recognizes that domestic and international defense markets may continue to decline, which would result in even stronger competitive pressures. This trend could adversely affect the Company's future results unless offset by greater foreign sales or new programs or products. The Company's on-going commercial diversification program should allow the Company to continue to reduce its overall dependence on its defense business and may alleviate some of the downward pressure on sales from the increased defense market competition.

RESEARCH AND DEVELOPMENT

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

In addition to its work under development contracts, the Company performs research and development at its own expense. For the fiscal years ended September 30, 1996, 1995 and 1994, total Company-sponsored research and development expenses were approximately $11.9 million, $15.1 million and $14.7 million, respectively, and Company-sponsored research and development expenses attributable to Hazeltine were approximately $6.1 million, $9.3 million and $8.8 million, respectively. Total customer-sponsored research and development expenses were approximately $3.9 million, $10.1 million and $9.7 million for those years, respectively, and customer-sponsored such expenses attributable to Hazeltine were approximately $3.9 million, $9.1 million and $8.3 million, respectively. The decrease in fiscal year 1996 research and development expenses was due to lower spending at Hazeltine prior to its divestiture.

ENVIRONMENTAL MATTERS

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

EMPLOYEES

As of November 30, l996, the Company employed approximately 2,400 persons. Approximately 300 of the Company's employees are covered by a collective bargaining agreement, which expires in fiscal year 1997.

FINANCING

The Company has a credit agreement, which has been amended and restated as of September 29, 1995, and further amended as of June 6, 1996 and as of August 2, 1996, for a $13 million term loan, amortizing at $325,000 per quarter, and an $80 million revolving credit facility (together the "Credit Facilities") with a group of seven banks agented by Morgan Guaranty Trust Company of New York. The Credit Facilities will mature and expire on September 30, 1998, and contain customary events of default, including change in control of the Company. In addition, under the Credit Facilities an event of default would occur if, for any reason other than payment or performance in accordance with the terms of one of the Company's contracts guaranteed by Emerson as referenced in the following section, Emerson shall cease to be liable under its guarantees with respect to any such contract. See "History Of The Business" below, "Management's Discussion and Analysis--Capital Resources and Liquidity" in the 1996 Annual Report, and Notes 7 and 12 of the Notes to Consolidated Financial Statements in the 1996 Annual Report, which Notes are 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 holding company for Electronics & Space Corp. ("E&S"), Hazeltine, Southwest Mobile Systems Corporation ("Southwest"), Rantec, Vacco and DCSI, which were then Emerson subsidiaries. Ownership of ESCO and its subsidiaries was distributed on October 19, 1990 (the "Distribution Date") by Emerson to its shareholders through a special distribution (the "Distribution"). On September 30, 1992, ESCO acquired ownership of Textron Filtration Systems, Inc. from Textron, Inc. and renamed the entity "PTI Technologies Inc." On March 12, 1993, ESCO acquired The Electro-Mechanics Company, a privately held company, from its shareholders. On December 1, 1993, ESCO acquired all outstanding stock of Schumacher Filters Limited (located in England) from Kraftanlagen, AG of Germany, and renamed this entity "PTI Technologies Limited". On December 29, 1994, ESCO acquired the assets of Ray Proof North America, a division of Shielding Systems Corporation, a subsidiary of Bairnco Corporation. See Note 2 of the Notes to Consolidated Financial Statements in the 1996 Annual Report, which Note is herein incorporated by reference.

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

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

On July 22, 1996, ESCO sold 100% of the capital stock of Hazeltine to GEC-Marconi. See Note 2 of the Notes to Consolidated Financial Statements in the 1996 Annual Report.

By means of the Distribution, Emerson distributed one share of ESCO's common stock, par value $0.01 per share (the "Common Stock"), for every 20 shares of Emerson common stock owned on October 5, 1990. Pursuant to a Deposit and Trust Agreement (the "Deposit and Trust Agreement") by and among Emerson, ESCO and Boatmen's Trust Company, as voting trustee, in lieu of receiving a share of Common Stock on the

Distribution Date, each Emerson shareholder received a Common Stock trust receipt (a "Receipt") representing the Common Stock and its associated preferred stock purchase rights.

In connection with the Distribution, Emerson, ESCO and ESCO's subsidiaries entered into various agreements which deal with, among other things: (A) Emerson's guarantee of certain contracts of ESCO's subsidiaries existing at September 30, 1990 pursuant to which ESCO paid Emerson a guarantee fee of $7.4 million per year during the subsequent five (5) year period, which ended September 30, 1995 (as of September 30, 1996, the aggregate backlog of firm orders received by the Company was approximately $246.7 million which included guaranteed contracts totaling approximately $8.8 million, and there were open letters of credit with an aggregate value of approximately $2.4 million related to foreign advance payments in support of various contracts guaranteed by Emerson); (B) the lease by E&S (which lease was guaranteed by ESCO) from Emerson of real property in St. Louis County, Missouri which formerly comprised ESCO's headquarters and E&S' primary manufacturing facility, and which terminated on September 30, 1995; (C) the allocation between ESCO and Emerson of certain rights and obligations relating to outstanding litigation, pre-Distribution tax liabilities and certain other matters; and (D) the provision of certain services by ESCO to Emerson and by Emerson to ESCO, which terminated on September 30, 1995. See Note 12 of the Notes to Consolidated Financial Statements in the 1996 Annual Report. Copies of certain of these agreements, as well as the Deposit and Trust Agreement, are incorporated by reference as exhibits to this Form 10-K.

Pursuant to the Deposit and Trust Agreement, if ESCO should fail in certain circumstances to collateralize its obligation to indemnify Emerson with respect to contracts that are directly or indirectly guaranteed by Emerson, Emerson would have the right to direct the voting of the ESCO Common Stock represented by the Receipts with respect to the election of directors (including changing the size of the Board or removing directors and filling any vacancies). Emerson has the right to require ESCO to provide collateral upon: (A) the occurrence of certain events relating to such guaranteed contracts, including defaults; (B) ESCO's failure to provide certain information, notices or consultation to Emerson or to maintain certain financial ratios and covenants; or (C) the acquisition of beneficial ownership of 20% or more of the voting power of ESCO's outstanding capital stock by any person or group. If Emerson requires such collateral, it is unlikely that ESCO will be able to provide it in light of, among other things, the amount of collateral which would be required to secure its obligations under the guaranteed contracts, which obligations may continue even after completion of the contract, and restrictions in its financing arrangements unless a waiver is obtained from its lenders. See "Financing" above and Note 8 of the Notes to Consolidated Financial Statements in the 1996 Annual Report, which Note is herein incorporated by reference.

Effective September 30, 1993, ESCO's Board of Directors authorized an accounting readjustment of the Company's balance sheet in accordance with the accounting provisions applicable to a "quasi-reorganization," an elective accounting procedure intended to restate assets and liabilities to fair values and to eliminate any accumulated deficit in retained earnings. See Note 1(b) of the Notes to Consolidated Financial Statements in the 1996 Annual Report, which Note is herein incorporated by reference.

During fiscal year 1995, the Company changed its method of accounting from amortizing the Emerson guarantee fee over the expected duration of the guaranteed contracts (estimated benefit period of seven years) on a straight-line basis to amortizing it based upon the related guaranteed contract revenues generated to date and the expected future revenues. This change in accounting principle, which is inseparable from a change in accounting estimate, was retroactively implemented effective October 1, 1994. See Note 1(e) of the Notes to Consolidated Financial Statements in the 1996 Annual Report, which Note is herein incorporated by reference.

ITEM 2. PROPERTIES

The Company's principal buildings contain approximately 1,482,000 square feet of floor space. Approximately 1,134,200 square feet are owned by the Company and approximately 347,800 square feet are leased. Substantially all of the Company's owned properties are encumbered in connection with the

Company's Credit Facilities. See Item 1. "Business--Financing" and Note 7 of the Notes to Consolidated Financial Statements in the 1996 Annual Report. The principal plants and offices are as follows:

LOCATION	SIZE (SQ. FT.)	SQ. FT. OWNED/LEASED	PRINCIPAL USE (INDUSTRY SEGMENT)
West Plains, MO	417,000	355,000 Owned 62,000 Leased	Manufacturing (Defense and Commercial)
St. Louis, MO	260,500	Owned	Management and Engineering (Defense and Commercial)
Sanford, FL	172,200	Owned	Manufacturing (Defense and Commercial)
Newbury Park, CA	144,600	Leased	Management, Engineering and Manufacturing (Defense and Commercial)
South El Monte, CA	112,000	Owned	Management, Engineering and Manufacturing (Defense and Commercial)
Durant, OK	102,300	Owned	Manufacturing (Commercial)
Calabasas, CA	61,700	Owned	Management, Engineering and Manufacturing (Defense and Commercial)
Austin, TX	50,000	Leased	Management, Engineering and Manufacturing (Commercial)
Los Osos, CA	40,000	Owned	Engineering and Manufacturing (Defense and Commercial)
St. Louis, MO	35,000	Leased	Management, Engineering and Manufacturing (Commercial)
Juarez, Mexico	34,400	Leased	Manufacturing (Defense and Commercial)
Sheffield, England	30,500	Owned	Management, Manufacturing and Distributor (Commercial)
St. Louis, MO	21,800	Leased	ESCO Headquarters (Defense and Commercial)

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

On August 11, 1994, a class action lawsuit was filed by Ronald and Angela Aprea and other persons against Hazeltine in the Supreme Court of the State of New York, Suffolk County, alleging personal injury and property damage caused by Hazeltine's purported releases of hazardous materials at Hazeltine's facility at Greenlawn, New York. In connection with the sale of Hazeltine, the Company indemnified Hazeltine and GEC-Marconi against expenses and potential liability related to this suit. The suit seeks compensatory and punitive damages, and an order enjoining Hazeltine from discharging further hazardous materials and for Hazeltine to remediate all damage to the property of the plaintiffs. The Company believes that no one and no property has been injured by any release of hazardous materials from Hazeltine's facility. In fiscal year 1995, the Court dismissed two counts of the complaint as a result of Hazeltine's motion to dismiss, and the plaintiffs filed an amended complaint. In fiscal year 1996, the plaintiffs filed a motion to be certified as a class. The Court recently denied this motion. Based upon current facts, the Company is not able to estimate the probable outcome. Therefore, no provision for this litigation has been made in the consolidated financial statements in the 1996 Annual Report. Management believes the Company will be successful in defending this action and that the outcome will not have a material adverse effect on the Company's financial statements. See Note 13 of the Notes to Consolidated Financial Statements in the 1996 Annual Report, which Note is herein incorporated by reference. See also Item 1. "Business--Government Defense Contracts" and "Business--Environmental Matters".

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, 1996 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	58	Chairman, President and Chief Executive Officer
Philip M. Ford	56	Senior Vice President and Chief Financial Officer
Walter Stark	53	Senior Vice President, Secretary and General Counsel
Philip A. Hutchison	55	Senior Vice President, Human Resources and Administration

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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 President of Electronics & Space Corp. ("E&S"), a former subsidiary of ESCO, from October 1987 to October l991. From October 1, 1990 to October 16, 1992, he was President and Chief

Operating Officer of ESCO. Since the latter date, he has been Chairman, President and Chief Executive Officer of ESCO.

Mr. Ford has been Senior Vice President and Chief Financial Officer of ESCO since October 1, l990.

Mr. Hutchison was Vice President-Human Resources and Administration of E&S from October 1988 to October 1991. From October l990 to October 1992, he was Vice President, Human Resources and Administration of ESCO. Since October 1992, he has been Senior Vice President, Human Resources and Administration of ESCO.

Mr. Stark was Vice President, Secretary and General Counsel of ESCO from October 1990 to October 1992. Since October 1992, he has been Senior Vice President, Secretary and General Counsel of ESCO.

PART II

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

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

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item, with respect to selected financial data, is incorporated herein by reference to "Five-Year Financial Summary" and Note 2 of the Notes to Consolidated Financial Statements appearing in the 1996 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 1996 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 15 through 32 and the report thereon of KPMG Peat Marwick LLP, independent certified public accountants, appearing on page 34 of the 1996 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 6, 1996 (the "1997 Proxy Statement") is hereby incorporated by reference. Information regarding executive officers is set forth in Part I of this Form 10-K.

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 1997 Proxy Statement is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding beneficial ownership of Receipts representing shares of Common Stock by nominees and directors, by executive officers, by directors and executive officers as a group and by any five percent stockholders appearing under "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners" in the 1997 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 15 through 32 and the Independent Auditors' Report thereon of KPMG Peat Marwick LLP appearing on page 34 of the 1996 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(a)(i)	Stock Purchase Agreement dated as of May 23, 1996 between ESCO and GEC-Marconi	Incorporated by Reference, Exhibit 2

2(a)(ii)	First Amendment Agreement dated as of July 19, 1996 to Stock Purchase Agreement listed as Exhibit 2(a)(i) above	Incorporated by Reference, Exhibit 2
3(a)	Restated Articles of Incorporation of ESCO	Incorporated by Reference, Exhibit 3.1
3(b)	Bylaws of ESCO, as amended	Incorporated by Reference, Exhibit 3(b)
4(a)	Specimen certificate for ESCO's Common Stock Trust Receipts	Incorporated by Reference, Exhibit 4(a)
4(b)	Rights Agreement dated as of September 24, 1990 between ESCO and Boatmen's Trust Company, as Rights Agent	Incorporated by Reference, Exhibit 4.2
4(c)(i)	Credit Agreement dated as of September 23, 1990 (as amended and restated as of December 30, 1992, amended as of January 15, 1993, October 15, 1993 and November 29, 1993, amended and restated as of May 27, 1994, amended as of August 5, 1994, and amended and restated as of September 29, 1995) among ESCO, Defense Holding Corp., the Banks listed therein and Morgan Guaranty Trust Company of New York, as Agent	Incorporated by Reference, Exhibit 4(c)
4(c)(ii)	Amendment dated as of June 6, 1996 to Credit Agreement listed as Exhibit 4(c)(i) above	
4(c)(iii)	Amendment dated as of August 2, 1996 to Credit Agreement listed as Exhibit 4(c)(i) above	
	No other long-term debt instruments are filed since the total amount of securities authorized under any such instrument does not exceed ten percent of the total assets of ESCO and its subsidiaries on a consolidated basis. ESCO agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.	
4(d)	Deposit and Trust Agreement dated as of September 24, 1990 among ESCO, Emerson Electric Co., Boatmen's Trust Company, as Trustee, and the holders of Receipts from time to time	Incorporated by Reference, Exhibit 4.3

10(a)	Distribution Agreement dated as of September 24, 1990 by and among ESCO, Emerson Electric Co., and ESCO's direct and indirect subsidiaries	Incorporated by Reference, Exhibit 2.1
10(b)	Tax Agreement dated as of September 24, 1990 by and among ESCO, Emerson Electric Co., and ESCO's direct and indirect subsidiaries	Incorporated by Reference, Exhibit 2.2
10(c)(i)	1990 Stock Option Plan	Incorporated by Reference,Exhibit 10.3
10(c)(ii)	Amendment to 1990 Stock Option Plan dated as of September 4, 1996	
10(d)	Form of Incentive Stock Option Agreement	Incorporated by Reference, Exhibit 10(g)
10(e)	Form of Incentive Stock Option Agreement - Alternative	Incorporated by Reference, Exhibit 10(h)
10(f)	Form of Non-Qualified Stock Option Agreement	Incorporated by Refrence, Exhibit 10(i)
10(g)	Form of Split Dollar Agreement	Incorporated by Reference, Exhibit 10(j)
10(h)	Form of Indemnification Agreement with each of ESCO's directors.	Incorporated by Reference, Exhibit 10(k)
10(i)	Stock Purchase Agreement dated as of August 20, 1992 by and between Textron, Inc. and ESCO	Incorporated by Reference, Exhibit 10(l)
10(j)(i)	Performance Share Plan	Incorporated by Reference
10(j)(ii)	Amendment to Performance Share Plan dated as of September 4,1996	
10(k)	Supplemental Executive Retirement Plan as amended and restated as of August 2, 1993	Incorporated by Reference, Exhibit 10(n)
10(l)(i)	Directors' Extended Compensation Plan	Incorporated by Reference, Exhibit 10(o)
10(l)(ii)	Compensatory Arrangement with former ESCO director	
10(m)(i)	1994 Stock Option Plan	Incorporated by Reference
10(m)(ii)	Amendment to 1994 Stock Option Plan dated as of September 4, 1996	
10(n)	Form of Incentive Stock Option Agreement	Incorporated by Reference, Exhibit 10(n)

10(o)	Form of Non-Qualified Stock Option Agreement	Incorporated by Reference, Exhibit 10(o)
10(p)	Severance Plan	Incorporated by Reference, Exhibit 10(p)
10(q)	Performance Compensation Plan dated as of August 2, 1993 (as amended and restated as of October 1, 1995)	
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 1996: Five-Year Financial Summary (p. 2) Management's Discussion and Analysis (pgs. 10-14) Consolidated Financial Statements (pgs. 15-32) and Independent Auditors' Report (p. 34) Shareholders' Summary--Capital Stock Information (p. 35) Common Stock Market Prices (p. 35)	
21	Subsidiaries of ESCO	
23	Independent Auditors' Consent	
27	Financial Data Schedule	

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Incorporated by reference to Current Report on Form 8-K--date of earliest event reported: July 22, 1996, at the Exhibit indicated

Incorporated by reference to Registration Statement on Form 10, as amended on Form 8 filed September 27, l990, at the Exhibit indicated

Incorporated by reference to Form l0-K for the fiscal year ended September 30, l991, at the Exhibit indicated

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

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

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

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

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

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

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) The Company filed a Current Report on Form 8-K during the quarter ended September 30, 1996, which reported "Item 2. Acquisition or Disposition of Assets" and "Item 7. Financial Statements and Exhibits". Financial statements filed with the Report were" "Unaudited Pro Forma Consolidated Statement of Operations--Year Ended September 30, 1995"; "Unaudited Pro Forma Consolidated Statement Of Income--Six Months Ended March 31, 1996;" and "Unaudited Pro Forma Consolidated Balance Sheet--March 31, 1996". The date of the Report (date of earliest event reported) was July 22, 1996.

SIGNATURES

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

ESCO ELECTRONICS CORPORATION

By D. J. Moore

Chairman, President and
Chief Executive Officer

Dated: December 13, 1996

Pursuant to the requirements of the Securities Exchange Act of l934, this report has been signed below effective December 13, 1996, by the following persons on behalf of the registrant and in the capacities indicated.

Signature	Title
D. J. Moore	Chairman, President, Chief Executive Officer and Director
P.M. Ford	Senior Vice President, Chief Financial Officer (Principal Accounting Officer)
J.J. Adorjan	Director
J.J. Carey	Director
J.M. McConnell	Director
D.C. Trauscht	Director

INDEX TO EXHIBITS

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

EXHIBIT NO.	EXHIBIT
4(c)(ii)	Amendment dated as of June 6, 1996 to Credit Agreement listed as Exhibit 4(c)(i) in the list of exhibits in Item 14(a)(3)
4(c)(iii)	Amendment dated as of August 2, 1996 to Credit Agreement listed as Exhibit 4(c)(i) in the list of exhibits in Item 14(a)(3)
10(c)(ii)	Amendment to 1990 Stock Option Plan dated as of September 4, 1996
10(j)(ii)	Amendment to Performance Share Plan dated as of September 4, 1996
10(l)(ii)	Compensatory Arrangement with former ESCO director
10(m)(ii)	Amendment to 1994 Stock Option Plan dated as of September 4, 1996
10(q)	Performance Compensation Plan dated as of August 2, 1993 (as amended and restated as of October 1, 1995)
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 1996: Five-year Financial Summary (p. 2) Management's Discussion and Analysis (pgs. 10-14) Consolidated Financial Statements (pgs. 15-32) and Independent Auditors' Report (p. 34) Shareholders' Summary--Capital Stock Information (p. 35) Common Stock Market Prices (p. 35)
21	Subsidiaries of ESCO
23	Independent Auditors' Consent
27	Financial Data Schedule

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

AMENDMENT, WAIVER AND CONSENT dated as of June 6, 1996 (this "Amendment") to the Credit Agreement dated as of September 23, 1990 (as amended and restated as of September 29, 1995) (the "Credit Agreement"), among ESCO ELECTRONICS CORPORATION, a Missouri corporation ("ESCO"), DEFENSE HOLDING CORP., a Delaware corporation (the "Borrower"), the BANKS party thereto (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

A. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement, as amended hereby.

B. ESCO and the Borrower have requested that the Banks enter into this Amendment in order to permit the potential sale of Hazeltine or its assets (the "Hazeltine Transaction"). Hazeltine is one of the Borrower's Subsidiaries. The Banks are willing to permit the Hazeltine Transaction, subject to the terms and conditions set forth herein.

Accordingly, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Consent and Waiver. (a) Subject to the conditions set forth in paragraph (b) below, the undersigned Banks hereby consent to the Hazeltine Transaction under Section 5.13(b) of the Credit Agreement and waive compliance with the provisions of Sections 5.11(d) and 5.12 of the Credit Agreement to the extent, but only to the extent, necessary to allow the use of the proceeds of the Hazeltine Transaction as provided below.

(b) The foregoing consent and waiver shall be subject to the satisfaction of the following conditions:

(i) The Hazeltine Transaction shall be consummated on or before September 30, 1996, as a sale of all the outstanding capital stock or all or substantially all of the assets of Hazeltine for fair market value (and in any event no less

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than $100,000,000) and solely for cash consideration.

(ii) At the time of and after giving effect to the Hazeltine Transaction, no Default shall have occurred and be continuing.

(iii) On the date of consummation of the Hazeltine Transaction (the "Hazeltine Closing Date"), the Agent shall have received a certificate from the Borrower as to the portion of the Borrowing Base (as reflected in the most recent Borrowing Base Certificate delivered prior to the Hazeltine Closing Date) transferred as a result of the Hazeltine Transaction. The Borrowing Base shall thereupon be reduced to reflect the consummation of the Hazeltine Transaction and if on the Hazeltine Closing Date, after giving effect to the Hazeltine Transaction, the sum of the Letter of Credit Exposure plus the aggregate outstanding principal amount of the Working Capital Loans exceeds the Borrowing Base, the Borrower shall forthwith comply with Section 2.08(c) of the Credit Agreement.

(iv) None of ESCO, the Borrower or any Subsidiary shall have transferred any assets to Hazeltine prior to the Hazeltine Closing Date except in the ordinary course of business.

(v) On or prior to the Hazeltine Closing Date, unless the Borrower shall choose to remain liable after the Hazeltine Closing Date for all obligations and liabilities under the Hazeltine Letters of Credit, each Issuing Bank that shall have issued any of the Hazeltine Letters of Credit shall have received (A) letters of credit issued to such Issuing Bank in respect of the Hazeltine Letters of Credit issued by it, in amounts equal to the Letter of Credit Exposure in respect of such Hazeltine Letters of Credit and issued by a bank and in a form satisfactory to such Issuing Bank, supporting the obligations to reimburse drawings under such Hazeltine Letters of Credit, and (B) if the Hazeltine Transaction is consummated as a sale of assets, a written agreement, satisfactory in form to such Issuing Bank, signed by the purchaser of such assets, to

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the effect that such purchaser assumes all liability of the Borrower in respect of fees payable in respect of such Hazeltine Letters of Credit and obligations to reimburse Letter of Credit Disbursements thereunder. If each such Issuing Bank receives the letters of credit and written agreement (if any) set forth in (A) and (B) above on the Hazeltine Closing Date, the Borrower shall pay all fees in respect of the Hazeltine Letters of Credit accrued through and including the Hazeltine Closing Date.

(vi) On, or within one Business Day after, the Hazeltine Closing Date, the Borrower shall prepay Term Loans in the aggregate principal amount of $6,000,000, if such prepayment is made prior to June 30, 1996, or $5,500,000, if such prepayment is made on or after June 30, 1996. As soon as practicable after the Hazeltine Closing Date and with such advance notice as is required by the terms thereof, the Borrower shall fully prepay the PTI Note.

SECTION 2. Amendment of the Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) Section 1.01 of the Credit Agreement is hereby amended as follows:

(i) The definition of "Consolidated Adjusted Net Income" is hereby amended by inserting an ending parenthesis after the word "nature" at the end of such definition.

(ii) The definition of "Letter of Credit Exposure" is hereby amended by inserting at the end of the first sentence thereof: ", but the "Letter of Credit Exposure" shall not include any drawn or undrawn amounts under the Hazeltine Letters of Credit if and when the Hazeltine Letters of Credit cease to constitute Letters of Credit as provided in Section 2.14(n)".

(iii) The definition of "Specified Subsidiaries" is hereby amended by inserting at the end of such definition the following proviso: ";provided that Hazeltine shall cease to be a

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Specified Subsidiary upon consummation of the Hazeltine Transaction."

(iv) The following definitions are hereby added to Section 1.01 in their appropriate alphabetical order:

"Hazeltine Closing Date" means the date of consummation of the Hazeltine Transaction.

"Hazeltine Letters of Credit" means Letters of Credit that will remain outstanding after consummation of the Hazeltine Transaction and that are issued to support an obligation of Hazeltine or for the account of Hazeltine.

"Hazeltine Transaction" means the sale of all the outstanding capital stock or all or substantially all the assets of Hazeltine (and, in the case of an asset sale, the liquidation of Hazeltine) in accordance with the terms and conditions of Section 1 of the Amendment, Waiver and Consent dated as of June 6, 1996, relating to this Agreement.

"Restricted Payment Amount" means an amount equal to the net cash proceeds of the Hazeltine Transaction received by the Borrower less the sum of the amounts applied to prepay Term Loans and the PTI Note in connection with the Hazeltine Transaction as required by the terms and conditions of Section 1 of the Amendment, Waiver and Consent dated as of June 6, 1996, relating to this Agreement; provided that the Restricted Payment Amount shall not exceed $50,000,000.

(b) The first sentence of Section 2.08(a) of the Credit Agreement is hereby amended by inserting at the end thereof the following proviso: ";provided that if the Hazeltine Transaction is consummated, the $500,000 amount referred to above shall be reduced to $325,000 for payments due thereafter".

(c) Section 2.14 of the Credit Agreement is hereby amended by inserting at the end thereof the following additional paragraph:

(n) If the Hazeltine Transaction is consummated in accordance with Section 1 of the Amendment, Waiver and Consent dated as of June 6, 1996, relating to this Agreement and if each Issuing Bank that shall have issued any of the

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Hazeltine Letters of Credit shall have received the letters of credit and written agreement (if any) referred to in Section 1(b)(v) thereto, then on and as of the Hazeltine Closing Date (i) the Hazeltine Letters of Credit shall cease to constitute Letters of Credit hereunder, (ii) the Borrower, ESCO and the Subsidiaries shall be released from their obligations and liabilities in respect of the Hazeltine Letters of Credit and (iii) the Banks shall be released from their participations in the Hazeltine Letters of Credit; provided that (i) the Borrower shall indemnify the Issuing Banks in respect of the Hazeltine Letters of Credit for any failure by Hazeltine (or the purchaser of its assets) to pay fees in respect of the Hazeltine Letters of Credit after the Hazeltine Closing Date, and (ii) unless the Hazeltine Transaction is consummated as a sale by Hazeltine of its assets, Hazeltine shall not be released from its obligations and liabilities in respect of the Hazeltine Letters of Credit and shall remain liable on and after the Hazeltine Closing Date for the reimbursement of drawings under the Hazeltine Letters of Credit and for the payment of fees in respect thereof to the respective Issuing Banks, all on the terms specified in this Agreement applicable to Letters of Credit, notwithstanding any contrary provision herein or in any other Loan Document.

(d) Section 5.12 of the Credit Agreement is hereby amended as follows:

(i) Clause (ii)(b) of Section 5.12 is hereby deleted and replaced with the following: "(b) the aggregate, cumulative dividends paid pursuant to this clause (ii) does not exceed during any fiscal year 25% of Consolidated Net Income for the next preceding fiscal year of ESCO plus, if the Hazeltine Transaction is consummated, additional dividends not to exceed, on a cumulative basis commencing with the Hazeltine Closing Date, the Restricted Payment Amount less any amounts paid for stock repurchases based on the Restricted Payment Amount pursuant to clause (iii) below;"

(ii) Clause (iii)(b) of Section 5.12 is hereby deleted and replaced with the following:

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"(b) aggregate Restricted Payments pursuant to this clause (iii) shall not exceed $5,000,000 during the 12-month period ending on the date of such purchase and shall not exceed $10,000,000 on a cumulative basis commencing with September 30, 1995, plus, if the Hazeltine Transaction is consummated, additional stock repurchases not to exceed, on a cumulative basis commencing with the Hazeltine Closing Date, the Restricted Payment Amount less any amounts paid as cash dividends based on the Restricted Payment Amount pursuant to clause (ii) above;"

(e) Section 5.13(a) of the Credit Agreement is hereby amended by inserting at the end of the first parenthetical clause appearing in clause (iii) of such Section, immediately before the close of such parenthetical clause, the following: ";provided that, if the Hazeltine
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Transaction is consummated, then on and after the Hazeltine Closing Date the foregoing provisions of this parenthetical clause shall cease to apply and, in lieu thereof, such cash consideration shall not exceed, in any fiscal year, the excess of $10,000,000 over the aggregate cumulative amount of Investments made in such fiscal year in reliance upon clause (g) of Section 5.16".

(f) Section 5.16 of the Credit Agreement is hereby amended as follows:

(i) Section 5.16(c) thereof is hereby deleted in its entirety.

(ii) Section 5.16(g)(iii) is hereby amended by inserting at the end of Section 5.16(g)(iii) the following: ";provided that, if the Hazeltine
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Transaction is consummated, then on and after the Hazeltine Closing Date the foregoing provisions of this Section 5.16(g)(iii) shall cease to apply and, in lieu thereof, the aggregate cumulative amount of all Investments made immediately after any such Investment is made or acquired, in any fiscal year made in reliance upon this clause (g), shall not exceed the excess of $10,000,000 over the aggregate cumulative amount of consideration paid in such fiscal year in respect of acquisitions made in reliance upon clause (iii) of Section 5.13(a)".

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(g) Section 5.22 of the Credit Agreement is hereby amended by inserting at the end thereof the phrase "minus (iv) if the Hazeltine Transaction is consummated, the aggregate amount that Consolidated Adjusted Tangible Net Worth is reduced as a result of repurchases of ESCO capital stock or the payment of any cash dividends to the holders of ESCO capital stock pursuant to clause (ii) or (iii) of Section 5.12, but only to the extent made in reliance upon the Restricted Payment Amount".

SECTION 3. Representations and Warranties. Each of ESCO and the Borrower hereby represents and warrants to each Bank, on and as of the date hereof, that:

(a) This Amendment has been duly authorized, executed and delivered by each of ESCO and the Borrower, and each of this Amendment and the Credit Agreement as amended by this Amendment constitutes a legal, valid and binding obligation of each of ESCO and the Borrower, enforceable in accordance with its terms.

(b) The representations and warranties of each of ESCO and Borrower contained in the Credit Agreement and in each other Loan Document are true and correct in all respects with the same effect as if made on and as of the date hereof, except to the extent that such representations and warranties expressly relate to an earlier date.

(c) Before and after giving effect to this Amendment, no Default has occurred and is continuing.

SECTION 4. Effectiveness. This Amendment shall become effective upon receipt by the Agent of counterparts hereof signed by each of ESCO, the Borrower, the Required Banks and each Issuing Bank.

SECTION 5. Miscellaneous. (a) This Amendment constitutes the entire agreement and understanding of the parties with respect to the subject matter hereof and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

(b) Section headings used herein are for convenience of reference only and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

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(c) This Amendment shall be construed in accordance with and governed by the law of the State of New York.

(d) Each reference to a party hereto shall be deemed to include its successors and assigns, all of whom shall be bound by this Amendment and to whose benefit the provisions of this Amendment shall inure.

(e) This Amendment may be executed in any number of counterparts, each of which shall be an original but all of which, when taken together, shall constitute but one instrument.

(f) Except as specifically amended or modified hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof.

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

ESCO ELECTRONICS CORPORATION

by
/s/ Donald H. Nonnenkamp

Name: Donald H. Nonnenkamp
Title: Vice President &
Treasurer

DEFENSE HOLDING CORP.

by
/s/ P.M. Ford

Name: P.M. Ford
Title: Sr. Vice President &
CFO

MORGAN GUARANTY TRUST COMPANY OF
NEW YORK, as Agent

by
/s/ Kevin J. O'Brien

Name: Kevin J. O'Brien
Title: Vice President

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

by
/s/ Kevin J. O'Brien

Name: Kevin J. O'Brien
Title: Vice President

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THE BOATMAN'S NATIONAL BANK
OF ST. LOUIS

by
/s/ Debra G. Jansma

Name: Debra G. Jansma
Title: Vice President

THE BANK OF NEW YORK

by
/s/ John C. Lambert

Name: John C. Lambert
Title: Vice President

THE BANK OF NOVA SCOTIA

by

Name:
Title:

THE SUMITOMO BANK, LIMITED

by
/s/ Teresa A. Lekich

Name: Teresa A. Lekich
Title: Vice President

FIRST UNION NATIONAL BANK OF
NORTH CAROLINA

by
/s/ Mark M. Harden

Name: Mark M. Harden
Title: Vice President

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SANWA BUSINESS CREDIT
CORPORATION

by
/s/ Lawrence J. Placek

Name: Lawence J. Placek
Title: Vice President

AMENDMENT dated as of August 2, 1996, to the Credit Agreement dated as of September 23, 1990 (as amended and restated as of September 29, 1995, and subsequently amended) (the "Credit Agreement"), among ESCO ELECTRONICS CORPORATION, a Missouri corporation ("ESCO"), DEFENSE HOLDING CORP., a Delaware corporation (the "Borrower"), the BANKS party thereto (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

A. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement, as amended hereby.

B. ESCO and the Borrower have requested that certain provisions of the Credit Agreement be amended as set forth herein. The Banks are willing to so amend the Credit Agreement subject to the terms and conditions set forth herein.

Accordingly, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Amendments. (a) Section 1.01 of the Credit Agreement is hereby amended to include the following definition in its appropriate alphabetical order:

"Excluded Items" means (i) an after-tax, non-recurring charge attributable to cost growth in System & Electronics, Inc.'s 60K Loader contract, not to exceed $18,800,000, (ii) an after-tax, non-recurring, non-cash charge attributable to the write-off of certain of the Borrower's and its Subsidiaries' inventory, not to exceed $14,300,000, (iii) an after-tax, non-recurring charge attributable to the reduction of the anticipated claim receivable of System and Electronics, Inc. against the United States government under the M1000 program, not to exceed $8,500,000, and (iv) the after-tax, non-recurring gain attributable to the Hazeltine Transaction; provided that Excluded Items shall not include any charge taken after September 30, 1996.

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(b) Section 5.21 of the Credit Agreement is hereby amended to add the following proviso at the end of such Section: "; provided that, for purposes of determining such ratio for any period that includes either or both of the two fiscal quarters ended June 30 and September 30, 1996, Consolidated Adjusted EBIT shall be determined excluding (to the extent otherwise included therein) the Excluded Items".

SECTION 2. Representations and Warranties. Each of ESCO and the Borrower hereby represents and warrants to each Bank, on and as of the date hereof, that:

(a) This Amendment has been duly authorized, executed and delivered by each of ESCO and the Borrower, and each of this Amendment and the Credit Agreement as amended by this Amendment constitutes a legal, valid and binding obligation of each of ESCO and the Borrower, enforceable in accordance with its terms.

(b) The representations and warranties of each of ESCO and Borrower contained in the Credit Agreement and in each other Loan Document are true and correct in all respects with the same effect as if made on and as of the date hereof, except to the extent that such representations and warranties expressly relate to an earlier date.

(c) After giving effect to this Amendment, no Default has occurred and is continuing.

SECTION 3. Effectiveness. This Amendment shall become effective upon receipt by the Agent of counterparts hereof signed by each of ESCO, the Borrower and the Required Banks.

SECTION 4. Miscellaneous. (a) This Amendment constitutes the entire agreement and understanding of the parties with respect to the subject matter hereof and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

(b) Section headings used herein are for convenience of reference only and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

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(c) This Amendment shall be construed in accordance with and governed by the law of the State of New York.

(d) Each reference to a party hereto shall be deemed to include its successors and assigns, all of whom shall be bound by this Amendment and to whose benefit the provisions of this Amendment shall inure.

(e) This Amendment may be executed in any number of counterparts, each of which shall be an original but all of which, when taken together, shall constitute but one instrument.

(f) Except as specifically amended or modified hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof.

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

ESCO ELECTRONICS CORPORATION

by

/s/ Donald H. Nonnenkamp

Name: Donald H. Nonnenkamp
Title: Vice Pres. & Treas.

DEFENSE HOLDING CORP.

by

/s/ Philip M. Ford

Name: Philip M. Ford
Title: Sr. Vice Pres. & CFO

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MORGAN GUARANTY TRUST COMPANY OF
NEW YORK, as Agent

by

/s/ Kevin J. O'Brien

Name: Kevin J. O'Brien
Title: Vice President

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

by

/s/ Kevin J. O'Brien

Name: Kevin J. O'Brien
Title: Vice President

THE BOATMAN'S NATIONAL BANK
OF ST. LOUIS

by

/s/ Debra G. Jasma

Name: Debra G. Jasma
Title: Vice President

THE BANK OF NEW YORK

by

/s/ R. Wes Towns

Name: R. Wes Towns
Title: VP & Division Head

THE BANK OF NOVA SCOTIA

by

/s/ F.C.H. Ashby

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

5

THE SUMITOMO BANK, LIMITED

by

/s/ Teresa A. Lekich

Name: Teresa A. Lekich

Title: Vice President

/s/ Jayleen R.P. Hague

Name: Jayleen R.P. Hague

Title: Vice President

FIRST UNION NATIONAL BANK OF NORTH CAROLINA

by

/s/ Mark M. Harden

Name: Mark M. Harden

Title: Vice President

SANWA BUSINESS CREDIT CORPORATION

by

/s/ Lawrence J. Placek

Name: Lawrence J. Placek

Title: Vice President

AMENDMENT TO THE ESCO ELECTRONICS
CORPORATION 1990 STOCK OPTION PLAN

WHEREAS, ESCO Electronics Corporation ("Company") adopted the ESCO Electronics 1990 Stock Option Plan for the benefit of eligible employees ("Plan"); and

WHEREAS, the Company retained the right to amend the Plan pursuant to Paragraph 16 thereof; and

WHEREAS, the Company desires to amend the Plan effective as of September 4, 1996:

NOW, THEREFORE, effective as of September 4, 1996, the Plan is amended as follows:

1. The following is added at the end of Paragraph 8:

"Upon exercise of an option the Committee shall withhold a sufficient number of shares to satisfy the Company's withholding obligations for any taxes incurred as a result of such exercise; provided, that in lieu of all or part of such withholding, the optionee may pay an equivalent amount of cash to the Company."

2. The following is added at the end of Paragraph 15:

"In the event of a special, non-recurring distribution with respect to the Company's Common Stock, the Committee may adjust the number of shares subject to each option and the option price per share in such manner as the Committee deems just and equitable to reflect such distribution, but in no event shall the total number of shares used under the Plan exceed the number authorized under Paragraph 2."

IN WITNESS WHEREOF, the foregoing amendment was adopted this 4th day of September, 1996.

AMENDMENT TO THE ESCO ELECTRONICS CORPORATION
PERFORMANCE SHARE PLAN

WHEREAS, ESCO Electronics Corporation ("Company") adopted the ESCO Electronics Corporation Performance Share Plan for the benefit of eligible employees ("Plan"); and

WHEREAS, the Company retained the right to amend the Plan pursuant to Section 11 thereof; and

WHEREAS, the Company desires to amend the Plan effective as of September 4, 1996:

NOW, THEREFORE, effective as of September 4, 1996, the Plan is amended as follows:

1. The first sentence of Section 7 is deleted and replaced with the following:

> "Payment may be made in shares of the Company's Common Stock (which may include stock with certain restrictions attached), in cash, or any combination thereof as determined by the Committee; provided, however, that in no event shall the value of the total payments under the Plan exceed the value of the shares reserved under Section 3 of the Plan (or as said number may be adjusted as hereinabove provided, or as Section 13(c) may otherwise permit special action as a result of a special, non-recurring distribution with respect to Common Stock of the Company)."

2. The following is added at the end of Section 13(c):

> "In the event of a special, non-recurring distribution with respect to the Company's Common Stock, the Committee may pay such special bonus or take such other action with respect to Performance Shares awarded as it deems just and equitable to reflect such distribution."

IN WITNESS WHEREOF, the foregoing amendment was adopted this 4th day of September, 1996.

Exhibit 10(l)(ii)

On November 14, 1996, the Human Resources and Ethics Committee of the Board of Directors of the Company approved a cash payment of $34,724 to Arthur F. Golden, a former director of the Company, in full settlement of amounts payable to him under the Company's Directors' Extended Compensation Plan for non-employee directors. The amount of the payment was based upon the present value of his benefit as determined by an independent actuarial firm.

AMENDMENT TO THE ESCO ELECTRONICS CORPORATION 1994 STOCK OPTION PLAN

WHEREAS, ESCO Electronics Corporation ("Company") adopted the ESCO Electronics 1994 Stock Option Plan for the benefit of eligible employees ("Plan"); and

WHEREAS, the Company retained the right to amend the Plan pursuant to Paragraph 16 thereof; and

WHEREAS, the Company desires to amend the Plan effective as of September 4, 1996:

NOW, THEREFORE, effective as of September 4, 1996, the Plan is amended as follows:

1. The following is added at the end of Paragraph 8:

"Upon exercise of an option the Committee shall withhold a sufficient number of shares to satisfy the Company's withholding obligations for any taxes incurred as a result of such exercise; provided, that in lieu of all or part of such withholding, the optionee may pay an equivalent amount of cash to the Company;"

2. The following is added at the end of Paragraph 15:

"In the event of a special, non-recurring distribution with respect to the Company's Common Stock, the Committee may adjust the number of shares subject to each option and the option price per share in such manner as the Committee deems just and equitable to reflect such distribution, but in no event shall the total number of shares used under the Plan exceed the number authorized under Paragraph 2."

IN WITNESS WHEREOF, the foregoing amendment was adopted this 4th day of September, 1996.

ESCO ELECTRONICS CORPORATION PERFORMANCE COMPENSATION PLAN FOR CORPORATE, SUBSIDIARY AND DIVISION OFFICERS AND KEY MANAGERS

Adopted August 2, 1993
Amended and Restated Effective
As of October 1, 1995

I. PURPOSE

The purpose of this ESCO Electronics Corporation Performance Compensation Plan for Corporate, Subsidiary and Division Officers and Key Managers is to provide an annual incentive plan for selected corporate, subsidiary and division officers and key managers which is based upon their performance and the performance of the Company and its Subsidiaries and Divisions during a Fiscal Year. In particular, this plan is designed to (a) pay such employees a portion of their total compensation on the basis of their performance during a given Fiscal Year, (b) tie Subsidiary and Division management into Corporate performance objectives for a given fiscal year, and (c) stay competitive with general industry trends in executive compensation.

II. DEFINITIONS

The following words shall have the following meanings unless the context clearly requires otherwise:

A. "Board of Directors" means the Board of Directors of ESCO Electronics Corporation.

B. "Executive Compensation Executive" means the Executive Compensation Executive of ESCO Electronics Corporation.

C. "Chief Executive Officer" means the Chief Executive Officer of ESCO Electronics Corporation.

D. "Committee" means the Human Resources and Ethics Committee of the Board of Directors of ESCO Electronics Corporation which is comprised of members who are not eligible to participate in the Plan.

E. "Company" means ESCO Electronics Corporation, a Missouri Corporation.

F. "Division" means a division of the Company or of a Subsidiary.

G. "Fiscal Year" means the fiscal year of the Company which is currently the twelve-month period ending September 30.

H. "Participant" means an employee of the Company, a Subsidiary or a Division eligible to receive a Performance Compensation Award.

I. "Performance Compensation Award" means the amount payable to a Participant under the Plan.

J. "Plan" means this ESCO Electronics Corporation Performance Compensation Plan for Corporate, Subsidiary and Division Officers and Key Managers.

K. "Subsidiary" means any corporation or partnership more than 50% of which is owned directly or indirectly by the Company.

III. ELIGIBILITY

Participation in the Plan shall be limited to those employees of the Company, Subsidiaries and Divisions as the Committee shall determine upon recommendation by the Chief Executive Officer. Additions or deletions to the Plan during a Fiscal Year shall be made only in the event of an unusual circumstance, such as a promotion or new hire.

IV. DETERMINATION OF MINIMUM AMOUNT PAYABLE

The Committee, after consultation with the Executive Compensation Executive, shall make a recommendation to the Board of Directors of the Company and to the Board of Directors of each Subsidiary of a minimum aggregate payment under the Plan to be made by each such employer for each Fiscal Year. The final determination of the minimum aggregate payment under the Plan for each Fiscal Year to be made by the Company and each Subsidiary shall be made by its respective Board of Directors prior to the end of such Fiscal Year.

V. DETERMINATION OF PERFORMANCE COMPENSATION AWARDS

As soon as practicable after the end of each Fiscal Year, Performance Compensation Awards for each Participant for such Fiscal Year shall be determined. The Chief Executive Officer shall submit proposed Performance Compensation Awards for each Participant to the Committee based upon that Participant's performance during the Fiscal Year; provided, that the Committee may, following such submission, consider the further recommendations of the Chief Executive Officer. Final determination of the amount of each Participant's Performance Compensation Award (if any) as well as the total payment under the Plan for each Fiscal Year shall be the responsibility of the Committee. Recommended Performance Compensation Awards to Participants may be denied, or adjusted upward or downward by the Committee, as, in the Committee's sole judgment, is prudent based upon its assessment of the Participant's performance and Corporate, Subsidiary or Division performance during the Fiscal Year. 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, except that Performance Compensation Awards for any executive officer of the Company within the meaning of Rule 3b-7 promulgated under the Securities Exchange Act of 1934, may only be discretionary. However, total Performance Compensation Awards under the Plan shall be no less than the minimum determined by the Board of Directors of the Company and each Subsidiary in accordance with Section IV.

Upon approval by the Committee, the Executive Compensation Executive shall make arrangements to ensure that each Participant is notified of the amount of his or her Performance Compensation Award.

VI. MANNER OF AND TIME FOR PAYMENTS

Performance Compensation Awards will normally be paid in cash by November 30th following the end of each Fiscal Year. However, each Participant shall have the right to elect to defer all or part of his or her payment under the Award until the following January. Such election must be made no later than the December 31st of the Fiscal Year with respect to which the Performance Compensation Award is granted by filing with the Executive Compensation Executive an executed form supplied by the Company. Except in the case of hardship described below, such election may only be revoked prior to the December 31st of the Fiscal Year with respect to which the Performance Compensation Award is granted. All elections (or revocations) hereunder must be made by filing with the Executive Compensation Executive an executed form supplied by the Company.

An election to defer a Performance Compensation Award may impact the calculation of a Participant's pension benefit because the calculation of such benefit is based on the average compensation received during the period used to calculate pension benefits (e.g., highest five years of earnings).

The Committee may direct, upon a showing of an emergency beyond the Participant's control which results in severe financial hardship, that a Participant who has elected to defer payment until the following January receive so much of his or her payment prior to such time as will enable the Participant to meet such emergency.

VII. DESIGNATION OF BENEFICIARY

If a Participant dies prior to receiving the entire amounts due under the Plan, the unpaid amounts will be paid in a lump sum to his or her beneficiary within 90 days after the end of the Fiscal Year in which his death occurs.

Each Participant shall have the right to designate a beneficiary, and to change such beneficiary from time to time, by filing a request in writing with the Executive Compensation Executive. In the event the Participant shall not have so designated a beneficiary, or in the event a beneficiary so designated shall predecease the Participant, the amounts otherwise payable to such beneficiary shall be paid to the person in, or divided equally among, the first of the following classes of successive preference beneficiaries in which there shall be any person surviving such Participant:

(a) the Participant's spouse

(b) the Participant's children

(c) the Participant's parents

(d) the Participant's brothers and sisters

(e) the Participant's executors or administrators.

The share payable to any minor pursuant to the provisions hereof may be paid to such adult or adults as, in the opinion of the Executive Compensation Executive, have assumed the custody and principal support of such minor.

VIII. ADMINISTRATION OF THE PLAN

The overall administration and control of the Plan, including final determination of Performance Compensation Awards to each Participant is the responsibility of the Committee. The Executive Compensation Executive shall be responsible for implementing the actions required under the Plan.

IX. VESTING

A Participant must be in the employ of the Company, Subsidiary or Division through the last day of the Fiscal Year with respect to which a Performance Compensation Award is granted in order to be considered for the grant of such an Award by the Committee. Such Participant must also (subject to specific Committee action to the contrary as hereinafter set forth in this Section IX) be an employee of the Company, Subsidiary or Division (1) on the date the award is payable pursuant to Section VI hereof if payment is not deferred pursuant to such Section, or (2) January 15 following the end of such Fiscal Year, if payment is deferred pursuant to Section VI. The final determination as to Awards to be granted, and if so, the amount of such Awards, shall be made by the Committee. Notwithstanding any other provision hereof, and in accordance with this Section IX, in the event a Participant terminates or is terminated by the Company, Subsidiary or Division, before or after the end of the Fiscal Year for any reason, including, but not limited to, retirement, disability, or death, the Committee shall have the sole discretion as to whether any such Award shall be granted, and, if so, the amount of such Award and the time such Award shall be paid.

X. AMENDMENT OR TERMINATION

The Plan may be amended or terminated at any time by action of the Committee.

XI. MISCELLANEOUS

A. All payments under the Plan shall be made from the general assets of the Company, Subsidiary or Division. To the extent any person acquires a right to receive payments under the Plan, such right shall be no greater than that of an unsecured general creditor of the Company, Subsidiary or Division.

B. Nothing contained in the Plan and no action taken pursuant thereto shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company, a Subsidiary or Division and any other person.

C. No amount payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, either voluntary or involuntary, and any attempt to so alienate, anticipate, sell, transfer, assign, pledge, encumber or charge the same shall be null and void. No such amount shall be liable for or subject to the debts, contracts, liabilities, engagements, or torts of any person to whom such benefits or funds are or may be payable.

D. Nothing contained in the Plan shall be construed as conferring upon any Participant the right to continue in the employ of the Company, Subsidiary or Division nor to limit the right of his or her employer to discharge the Participant at any time, with or without cause.

E. The Plan shall be construed and administered in accordance with the laws of the State of Missouri.

FIVE-YEAR FINANCIAL SUMMARY

(Dollars in millions, except per share amounts)	1996	1995	1994	1993	1992
FOR YEARS ENDED SEPTEMBER 30:					
Net sales	$438.5	441.0	473.9	459.7	406.3
Nonrecurring charges	25.3	35.4	--	--	--
Interest expense	4.8	5.5	3.6	2.5	1.3
Earnings (loss) before income taxes	14.8	(29.5)	12.7	6.4	2.0
Net earnings (loss)	26.1	(30.3)	8.3	5.2	1.4
Earnings (loss) per share:					
Primary	2.26	(2.76)	.72	.47	.12
Fully diluted	2.25	(2.76)	.72	.46	.12
AS OF SEPTEMBER 30:					
Working capital	86.2	71.4	86.6	76.8	100.5
Total assets	307.8	378.0	347.5	335.3	541.7
Long-term debt	11.4	23.5	25.1	8.1	8.1
Shareholders' equity	191.1	182.3	187.4	174.1	390.9

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

Business Environment

ESCO Electronics Corporation (ESCO, the Company) primarily operates within the increasingly competitive defense industry. As the overall defense industrial base continues its rapid consolidation, ESCO has responded to this competitive challenge by continuing to reposition itself to compete in the global marketplace and to apply defense technologies to commercial products. Management believes the Company's strong product diversification and technology niches in its core defense businesses will enable it to compete effectively in these shrinking defense markets.

During 1996, management implemented one of the key elements of its strategy to create shareholder value -- the sale of Hazeltine Corporation (Hazeltine). On July 22, 1996, the Company completed the sale of its Hazeltine subsidiary to GEC-Marconi Electronic Systems Corporation (GEC). The Company sold 100% of the common stock of Hazeltine for $110 million in cash. The sale of Hazeltine enabled the Company to further strengthen its overall financial position and to return a significant amount of the proceeds to shareholders.

Also during 1996, management continued to increase its investment in commercial opportunities by selectively applying the Company's proven defense technologies and capabilities to non-military applications. This success was evidenced by the 43% increase in commercial sales in 1996 compared to 1995.

During 1995, the Company enhanced its competitive repositioning by implementing a facilities consolidation program which reduced the Company's operating facilities' square footage by approximately 30%.

Overall, 1996 was a challenging, yet rewarding year for ESCO. Mature defense programs which were completed in the prior year were replaced by new defense programs and new commercial opportunities. These new program opportunities, in conjunction with the sale of Hazeltine, effectively repositioned the Company's business base for the remainder of the decade. This should allow ESCO to increase its commercial segment contribution while continuing to reduce its overall dependence on its defense business.

ESCO's improved financial position and strong balance sheet at September 30, 1996 should allow the Company to continue its strategy of deliberate diversification through internal product development and acquisitions, thereby increasing shareholder value.

Results of Operations

1996 Compared with 1995

Net sales of $438.5 million in 1996 were $2.5 million (0.6%) lower than net sales of $441 million in 1995. The decrease was primarily the result of the sale of Hazeltine in July 1996. Hazeltine's sales for the ten-month period of 1996 prior to its divestiture were $20.4 million lower than its full year's sales in 1995. Net sales at the remainder of the Company's operating units increased $17.9 million in 1996 compared to 1995 due to increased sales volume at Systems & Electronics Inc. (SEI) and PTI Technologies Inc. (PTI). In 1996, defense sales were $301 million and commercial sales were $137.5 million compared with 1995 defense and commercial sales of $345.1 million and $95.9 million, respectively. Hazeltine's commercial sales were not significant in either period presented. The increase in 1996 commercial sales reflects additional volume primarily at SEI, PTI and EMC Test Systems. Management expects the Company's commercial sales content as a percent of total sales will continue to increase in 1997.

The Company is involved in the design, development and manufacture of products for the defense and commercial markets. The Company generally manufactures products only upon receipt of firm customer orders and delivers the products in accordance with the customer's schedule. As a result, the Company's beginning backlog of firm orders, the level of orders received during the year and the mix of products to be produced all influence the Company's operating results.

The September 30, 1995 backlog of $530.9 million as previously reported included $236.3 million related to Hazeltine. Firm order backlog was $246.7 million at September 30, 1996, compared to $294.6 million as adjusted to remove Hazeltine's backlog at September 30, 1995. The decrease in backlog as adjusted reflects the timing of receipt of orders and related sales throughout the various programs' life cycles, principally at SEI.

Orders aggregating $373.6 million were received in 1996, compared with $436.2 million in 1995. Orders received by Hazeltine prior to its sale were $77.4 million and $160.1 million in 1996 and 1995, respectively. Adjusted to remove Hazeltine from both periods, comparative orders for 1996 and 1995 were $296.2 million and $276.1 million, respectively, reflecting a $20.1 million (7.3%) increase. The largest increases in orders were recorded at PTI and EMC Test Systems. The most significant orders in 1996 were for filtration/fluid flow products; aircraft cargo loaders; EMC test equipment; M1000 tank transporters; integrated mail handling and sorting systems; and airborne radar systems.

The gross profit margin in 1996 was 16.4% compared to 21.8% in 1995 primarily due to a $23 million adjustment of the estimate of the costs to complete the 60K Loader program at SEI. The 1996 gross profit margin, excluding the 60K Loader adjustment, was consistent with the gross margin percentage in 1995. The gross profit percentage attributable to the commercial segment increased slightly in 1996 compared to 1995.

Selling, general and administrative expenses for 1996 were $70.5 million, or 16.1% of net sales, compared with $74.2 million, or 16.8% of net sales, for 1995. The decrease in 1996 is the result of successful cost containment programs throughout the Company and the sale of Hazeltine.

Interest expense decreased to $4.8 million in 1996 from $5.5 million in 1995, primarily as a result of lower average outstanding borrowings and lower weighted average interest rates throughout 1996 compared to 1995. A significant amount of the outstanding borrowings were repaid in July 1996 with a portion of the proceeds from the sale of Hazeltine.

Other costs and expenses, net, decreased in 1996 to $5 million from $10.7 million in 1995, primarily due to the absence in 1996 of approximately $5 million in amortization of a contract guarantee fee previously paid to Emerson Electric Co. (Emerson) in connection with the spin-off of ESCO in 1990.

The gain on the sale of Hazeltine represents the net gain after deducting selling costs and expenses and after deducting for certain assets and liabilities retained by ESCO.

Nonrecurring charges of $25.3 million in 1996 represent non-cash pretax charges to reflect recent events which impacted the value of certain assets on the Company's balance sheet. The items affected include certain assets which management has determined are obsolete, costs incurred in anticipation of certain defense contract awards which the Company no longer expects to receive, and the downward adjustment in the Company's estimate of recoveries in a contract dispute.

Nonrecurring charges of $35.4 million incurred during 1995 were related to the facilities consolidation program implemented in 1995 and the change in accounting estimates for certain prepaid assets. The 1995 charges include: an $11.1 million non-cash pretax charge relating to performance guarantees on certain contracts; an $8.6 million pretax charge for a non-cash write-off related to the accounting for the lease on the 8100 West Florissant, St. Louis, Missouri facilities which were vacated; a $7.9 million non-cash pretax charge associated with the disposition of inventories resulting from the consolidation program and related restructuring of the Company's West Coast operations; and a $7.8 million pretax charge for exit and relocation costs.

Based on the Company's historical pretax income and losses, adjusted for significant nonrecurring items such as the facilities consolidation program, the change in accounting estimates and other nonrecurring costs, together with management's projection of future taxable income, management believes it is more likely than not that the Company will realize a majority of the benefits of the net deferred tax asset existing at September 30, 1996. In order to realize the aforementioned net deferred tax asset, excluding the capital loss carryforward, the Company will need to generate future taxable income of approximately $189 million, a significant portion of which is required to be realized prior to the expiration of the net operating loss (NOL) carryforwards, which will begin to expire in 2006. As a result of the sale of Hazeltine, the Company has generated a capital loss for tax purposes of approximately $87 million. This capital loss may be applied for a limited period towards future capital gains recognized by the Company, at which time the Company may realize additional tax benefits. Any unused capital loss carryforward will expire in 2001.

The Company had previously reduced its deferred tax valuation allowance systematically by utilizing projected taxable income over a specified future period of time. Management currently believes, considering the aforementioned items, the Company will generate sufficient taxable income to absorb all net operating loss carryforwards and deductible temporary differences prior to expiration of the NOLs, and accordingly, in 1996 reduced its deferred tax valuation allowance by $15.8 million. The remaining portion of the 1995 deferred tax valuation allowance of approximately $12.7 million represents management's best estimate of the portion of the deferred tax asset associated with temporary differences and NOLs which may not be realized. Due to the 1993 Corporate Readjustment, $15.1 million of this reduction was credited directly to additional paid-in capital. The remaining $.7 million was credited directly to the tax provision. The Company has maintained a full valuation reserve in the amount of $30.6 million for the portion of the deferred tax asset represented by the capital loss. There can be no assurance, however, that the Company will generate sufficient taxable income or a specified level of continuing taxable income in order to fully utilize the deferred tax assets in the future.

Income tax expense for 1995 reflects foreign, state and local taxes, net of a $.4 million benefit recognized in 1995.

The effective tax rate in 1996 was (77%) compared with (2.6%) in 1995. The tax provisions for both periods presented are impacted by the Corporate Readjustment implemented in 1993. The income tax benefit recognized in 1995 of $25.2 million was accounted for as a credit to additional paid-in capital.

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS 121 requires recognition of an impairment loss for long-lived assets if the sum of the entity's expected future undiscounted cash flow is less than the carrying amount of the respective assets. The Company will adopt the provisions of SFAS 121 in 1997. The effect on 1997 results of operations is not expected to be material.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." SFAS 123, which is effective beginning in 1997, establishes financial accounting and reporting standards for stock-based employee compensation plans. The Company will comply with SFAS 123 in 1997. The Company is currently evaluating which alternatives available within the Standard will be adopted.

1995 Compared with 1994

Net sales of $441 million in 1995 were $32.9 million (6.9%) lower than net sales of $473.9 million in 1994. The decrease was primarily the result of the completion of mature defense programs in 1994 at SEI and Hazeltine, which were partially replaced by new defense programs entering production and new commercial products. In 1995, defense sales were $345.1 million and commercial sales were $95.9 million compared with 1994 defense and commercial sales of $387.2 million and $86.7 million, respectively. The increase in 1995 commercial sales reflects additional volume primarily at PTI and SEI.

Firm order backlog was $530.9 million at September 30, 1995, a $4.8 million (.9%) decrease from the $535.7 million backlog at September 30, 1994. Orders aggregating $436.2 million were received in 1995, compared with $418.7 million in 1994. The most significant orders in 1995 were for electronic identification systems; aircraft cargo loaders; anti-missile system canisters and the related M860 trailers; high power device testers; TOW missile systems; and fire support systems used on the Bradley Fire Support Team vehicle.

The gross profit margin in 1995 increased to 21.8% from 21.2% in 1994, primarily due to changes in sales mix throughout the Company. The 1994 gross profit was negatively impacted by the revised estimate of the costs to complete the M1000 tank transporter program at SEI. The gross profit percentages attributable to the defense and commercial segments remained consistent within the comparable periods presented.

Selling, general and administrative expenses for 1995 were $74.2 million, or 16.8% of net sales, compared with $76 million, or 16% of net sales, for 1994. The decrease in 1995 spending was the result of successful cost containment programs throughout the Company. The increase in 1995 percentage of sales was primarily due to additional investment in start-up commercial programs throughout the Company.

Interest expense increased to $5.5 million in 1995 from $3.6 million in 1994, primarily as a result of the additional short-term borrowings outstanding throughout 1995 needed to fund current working capital requirements and higher market interest rates throughout 1995.

Other costs and expenses, net, increased in 1995 to $10.7 million from $8 million in 1994, primarily due to additional patent and royalty costs incurred in 1995. Other costs and expenses, net, in both periods included approximately $5 million in amortization of a contract guarantee fee paid to Emerson.

Nonrecurring charges of $35.4 million incurred during 1995 were related to the facilities consolidation program implemented in 1995 and the change in accounting estimates for certain prepaid assets.

Income tax expense for 1995 reflects foreign, state and local taxes, net of a $.4 million benefit recognized in 1995.

The effective tax rate in 1995 was (2.6%) compared with 34.4% in 1994. The tax provisions for both periods presented are impacted by the Corporate Readjustment implemented in 1993. The income tax benefits recognized in 1995 and 1994 of $25.2 million and $4.2 million, respectively, were accounted for as credits to additional paid-in capital.

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Capital Resources and Liquidity

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The Company has been, and will continue to be, impacted by changes in the defense industry brought about by the changing international political environment and the U.S. Government's deficit reduction measures, including procurement policies and tax reform. This operating environment requires defense contractors to make significant capital commitments to programs for extended periods of time. The Company has been concentrating on shifting its business from development programs to production programs and on increasing the commercial content of its business base, resulting in lower working capital requirements and thereby reducing the risk inherent in the defense industry.

Net cash provided by operating activities in 1996 was $1.0 million compared to net cash used by operating activities of $8.1 million in 1995. The 1996 net cash provided by operating activities improved compared to 1995 primarily due to lower investment in working capital in 1996. The 1996 net cash provided by operating activities was favorably impacted by positive cash generation from inventories versus the 1995 cash investment required for inventories. This 1996 cash generation from inventories was partially offset by the liquidation of advance payments on long-term contracts received in 1995.

Net cash used by operating activities was $8.1 million in 1995, compared to $11.4 million in 1994. The 1995 net cash used by operating activities was significantly impacted by the $6.6 million cash requirement necessary to fund operating working capital, primarily at SEI. The 1995 operating working capital requirements were impacted by: an increase of $29 million in costs and estimated earnings on long-term contracts and inventories primarily to satisfy near-term production and delivery requirements; partially offset by a $9.2 million increase in advance payments received on long-term contracts.

The 1994 operating working capital requirements were adversely affected by: an increase in accounts receivable, primarily due to the timing and volume of deliveries and cash receipts; and reductions in accounts payable, advance payments on long-term contracts and accrued expenses resulting from payments necessary to satisfy outstanding commitments throughout 1994.

In 1996, capital expenditures of $8.6 million included capitalized facility costs at SEI resulting from the 1995 facilities consolidation program, and process equipment at PTI. The 1996 capital expenditures included $1.5 million related to Hazeltine. In 1995, capital expenditures of $11.1 million included capitalized facility costs and production test equipment at SEI and facility restoration costs at Rantec resulting from the 1994 California earthquake. In 1994, the most significant expenditures included process equipment at PTI, facility restoration costs at Rantec and production test equipment at Hazeltine. There were no commitments outstanding that were considered material for capital expenditures at September 30, 1996.

At September 30, 1996, the Company had available net operating loss carryforwards (NOLs) for tax purposes of approximately $120 million. These NOLs will expire beginning in year 2006 and ending in year 2010. These NOLs will be used to reduce future Federal income tax cash payments.

On December 29, 1994, the Company purchased the assets of Ray Proof North America, a division of Shielding Systems Corporation, a wholly owned subsidiary of Bairnco Corporation, for approximately $1.6 million. Ray Proof was primarily involved in the development, production, installation and test of anechoic absorber material and shielding room materials.

On December 1, 1993, the Company acquired Schumacher Filters, Ltd. (renamed PTI Technologies Limited) for approximately $7.6 million.

In conjunction with the sale of Hazeltine in July 1996, the Company amended its bank credit facility. The Company maintained its $80 million revolving credit facility (subject to borrowing base asset limitations), repaid all outstanding short-term borrowings and paid down the bank term loan to $13 million. The $13 million term loan has scheduled amortization payments of $325,000 per quarter commencing in the quarter ended September 30, 1996. The maturity of the bank credit facility is September 30, 1998. The amended bank agreement also allowed the Company to use a portion of the Hazeltine sales proceeds to pay a special cash distribution to shareholders in 1996 and to repurchase a significant amount of outstanding ESCO common shares in the open market. The revolving credit facility is available for direct borrowings and/or the issuance of letters of credit. These credit facilities are provided by a group of banks, led by Morgan Guaranty Trust Company of New York. At September 30, 1996, the Company had $64.2 million available under this revolving credit facility. The $8 million subordinated term loan was repaid in 1996.

In 1996, the Company authorized an open market share repurchase program for up to two million shares of common stock over a period ending September 30, 1998. No shares were repurchased in 1996.

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.

During 1995, Textron, Inc. returned and the Company has cancelled the 500,000 warrants previously issued in connection with the September 30, 1992 acquisition of PTI.

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

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

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Forward-Looking Information

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The statements contained in the Chairman's message (pgs. 3-5), the Commercial and Defense business summaries (pgs. 6-9), and this Management's Discussion and Analysis concerning the Company's future revenues, profitability, financial resources, product mix, market demand and product development are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to: changing priorities or reductions in the U.S. and worldwide defense budgets; termination of government contracts due to unilateral government action or the Company's failure to perform; delivery delays or defaults by customers; performance issues with key suppliers and subcontractors; the Company's successful execution of internal operating plans; and collective bargaining labor disputes.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, (Dollars in thousands, except per share amounts	1996	1995	1994
Net sales	$438,543	441,023	473,855
Costs and expenses:			
Cost of sales	366,719	344,781	373,580
Selling, general and administrative expenses	70,464	74,162	75,989
Interest expense	4,781	5,549	3,646
Other, net	5,017	10,665	7,984
Gain on sale of Hazeltine	(48,500)	--	--
Nonrecurring charges	25,300	35,371	--
Total costs and expenses	423,781	470,528	461,199
Earnings (loss) before income tax	14,762	(29,505)	12,656
Income tax expense (benefit)	(11,374)	755	4,348
Net earnings (loss)	$ 26,136	(30,260)	8,308
Earnings (loss) per share:			
Primary	$ 2.26	(2.76)	.72
Fully diluted	$ 2.25	(2.76)	.72

See accompanying notes to consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Years ended September 30, (Dollars in thousands)	1996	1995
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 22,209	320
Accounts receivable, less allowance for doubtful accounts of $273 and $242 in 1996 and 1995, respectively	34,664	48,224
Costs and estimated earnings on long-term contracts, less progress billings of $70,671 and $72,194 in 1996 and 1995, respectively	51,585	51,923
Inventories	51,187	107,421
Other current assets	3,005	3,975
Total current assets	162,650	211,863
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	6,586	14,996
Buildings and leasehold improvements	27,974	46,597
Machinery and equipment	40,748	47,333
Construction in progress	5,043	7,300
	80,351	116,226
Less accumulated depreciation and amortization	26,325	24,747
Net property, plant and equipment	54,026	91,479
Excess of cost over net assets of purchased businesses, less accumulated amortization of $1,597 and $1,051 in 1996 and 1995, respectively	20,395	20,490
Deferred tax asset	53,326	25,637
Other assets	17,435	28,532
	$307,832	378,001

See accompanying notes to consolidated financial statements.

ESCO ELECTRONICS CORPORATION SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Years ended September 30, (Dollars in thousands)	1996	1995
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings and current maturities of long-term debt	$ 1,300	39,000
Accounts payable	40,057	42,327
Advance payments on long-term contracts, less costs incurred of $5,478 and $2,816 in 1996 and 1995, respectively	8,336	19,617
Accrued expenses	26,771	39,510
Total current liabilities	76,464	140,454
Other liabilities	28,860	31,840
Long-term debt	11,375	23,452
Total liabilities	116,699	195,746
Commitments and contingencies	--	--
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $.01 per share, authorized 10,000,000 shares	--	--
Common stock, par value $.01 per share, authorized 50,000,000 shares; issued 12,415,346 and 11,574,420 shares in 1996 and 1995, respectively	124	116
Additional paid-in capital	192,967	210,205
Retained earnings (deficit) since elimination of deficit of $60,798 at September 30, 1993	4,184	(21,952)
Cumulative foreign currency translation adjustments	107	292
Minimum pension liability	(1,869)	(1,998)
	195,513	186,663
Less treasury stock, at cost (566,622 and 570,472 common shares in 1996 and 1995, respectively)	(4,380)	(4,408)
Total shareholders' equity	191,133	182,255
	$307,832	378,001

See accompanying notes to consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended September 30, (In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Cumulative Foreign Currency Translation Adjustments	Minimum Pension Liability	Treasury Stock
Balance, September 30, 1993	11,387	$114	177,789	--	(161)	--	(3,643)
Exercise of stock options	133	1	1,657	--	--	--	--
Net earnings	--	--	--	8,308	--	--	--
Effect of Corporate Readjustment on taxes	--	--	4,177	--	--	--	--
Purchases into treasury	--	--	--	--	--	--	(795)
Translation adjustments	--	--	--	--	(34)	--	--
Balance, September 30, 1994	11,520	115	183,623	8,308	(195)	--	(4,438)
Exercise of stock options	54	1	1,343	--	--	--	30
Net loss	--	--	--	(30,260)	--	--	--
Effect of Corporate Readjustment on taxes	--	--	25,239	--	--	--	--
Translation adjustments	--	--	--	--	487	--	--
Minimum pension liability	--	--	--	--	--	(1,998)	--
Balance, September 30, 1995	11,574	116	210,205	(21,952)	292	(1,998)	(4,408)
Exercise of stock options	841	8	3,214	--	--	--	28
Net earnings	--	--	--	26,136	--	--	--
Effect of Corporate Readjustment on taxes	--	--	15,094	--	--	--	--
Cash distribution ($3.00 per share)	--	--	(35,546)	--	--	--	--
Translation adjustments	--	--	--	--	(185)	--	--
Minimum pension liability	--	--	--	--	--	129	--
Balance, September 30, 1996	12,415	$124	192,967	4,184	107	(1,869)	(4,380)

See accompanying notes to consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended September 30, (Dollars in thousands)	1996	1995	1994
Cash flows from operating activities:			
Net earnings (loss)	$ 26,136	(30,260)	8,308
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	13,486	14,042	13,652
Changes in operating working capital	5,852	(6,602)	(20,668)
Write-off of certain assets	25,300	19,744	--
Gain on sale of Hazeltine	(48,500)	--	--
Effect of deferred taxes on tax provision	(12,598)	(448)	4,177
Other	(8,698)	(4,595)	(16,894)
Net cash provided (used) by operating activities	978	(8,119)	(11,425)
Cash flows from investing activities:			
Capital expenditures	(8,558)	(11,146)	(10,131)
Divestiture / (acquisition) of businesses	110,000	(1,596)	(7,648)
Net cash provided (used) by investing activities	101,442	(12,742)	(17,779)
Cash flows from financing activities:			
Proceeds from long-term debt	--	4,490	--
Principal payments on long-term debt	(15,386)	(2,217)	(1,046)
Net increase (decrease) in short-term borrowings	(33,000)	15,500	22,500
Special cash distribution / purchases of common stock into treasury	(35,546)	--	(795)
Other	3,401	752	695
Net cash provided (used) by financing activities	(80,531)	18,525	21,354
Net increase (decrease) in cash and cash equivalents	21,889	(2,336)	(7,850)
Cash and cash equivalents at beginning of year	320	2,656	10,506
Cash and cash equivalents at end of year	$ 22,209	320	2,656
Changes in operating working capital:			
Accounts receivable, net	$ 5,487	1,191	(14,255)
Costs and estimated earnings on long-term contracts, net	(14,382)	(7,140)	5,310
Inventories	20,730	(21,820)	5,272
Other current assets	(15)	2,625	(4,258)
Accounts payable	133	8,408	(8,623)
Advance payments on long-term contracts, net	(7,183)	9,180	(2,350)
Accrued expenses	1,082	954	(1,764)
	$ 5,852	(6,602)	(20,668)
Supplemental cash flow information:			
Interest paid to third parties	$ 4,765	5,495	3,411
Income taxes paid	673	972	1,143

See accompanying notes to consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of ESCO Electronics Corporation (ESCO) and its wholly owned subsidiaries (the Company). All significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the 1996 presentation.

(b) Basis of Presentation

Effective September 30, 1990, Emerson Electric Co. (Emerson) transferred the stock of certain of its subsidiaries, primarily related to its government and defense business, to ESCO and distributed all of the issued and outstanding ESCO common stock to Emerson shareholders (the spin-off). Effective September 30, 1993, the Company implemented an accounting readjustment in accordance with the accounting provisions applicable to a "quasi-reorganization" which restated assets and liabilities to fair values and eliminated the deficit in retained earnings.

Fair values of the Company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. The estimated fair value of each class of financial instruments approximated the related carrying value at September 30, 1996 and 1995.

(c) Nature of Operations

The Company is engaged in the research, development, manufacture, sale and support of a wide variety of defense and commercial systems and products. Defense items principally are supplied to the United States Government under prime contracts from the Army, Navy and Air Force and under subcontracts with their prime contractors, and are also sold to foreign customers. Commercial items are supplied to a variety of customers worldwide.

The Company operates in two principal industry segments: defense and commercial. The Company's main products include defense electronics, defense systems, filtration/fluid flow, communications/test and other industrial and government products.

(d) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions 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) Change in Accounting -- 1995

Emerson guaranteed the performance of most of the Company's contracts which existed at the spin-off. In consideration of these performance guarantees, the Company paid Emerson a guarantee fee of $7.4 million per year during the five-year period ended September 30, 1995.

During 1995, management reviewed the accounting for these performance guarantees and determined the period and method of amortizing the guarantee fee should take into consideration the expected future revenue stream from the respective guaranteed contracts. Accordingly, management changed its method of accounting from amortizing the guarantee fee over the expected duration of the guaranteed contracts (estimated benefit period of seven years) on a straight-line basis to amortizing it based upon the related guaranteed contract revenues generated to date and the expected future revenues.

This change in accounting principle, which is inseparable from a change in accounting estimate, was retroactively implemented effective October 1, 1994, which represents the beginning of the Company's fiscal year 1995. This change resulted in an $11.1 million non-cash pretax charge.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(f) Revenue Recognition

Revenue on production contracts is recorded when specific contract terms are fulfilled, usually by delivery or acceptance (the units of delivery method of accounting). The costs attributed to units delivered are based on the estimated average costs of all units expected to be produced in a contract or group of contracts. Revenue under long-term contracts for which units of delivery is an inappropriate measurement of performance is recognized on the percentage-of-completion method based upon incurred costs compared to total estimated costs under the contract. Revenue under engineering contracts is generally recognized as milestones are attained.

Revenues from cost reimbursement contracts are recorded as costs are incurred, plus fees earned. Estimated amounts for contract changes and claims are included in contract revenues only when realization is probable. Revisions to assumptions and estimates, primarily in contract value and estimated costs used for recording sales and earnings, are reflected in the accounting period in which the facts become known. Losses recognized on contracts include a provision for the future selling, general and administrative costs applicable to the respective contracts.

Revenue is recognized on commercial sales when products are shipped or when services are performed.

(g) Cash and Cash Equivalents

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

(h) Costs and Estimated Earnings on Long-Term Contracts

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

(i) Inventories

Inventories 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.

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

(j) Property, Plant and Equipment

Property, plant and equipment are recorded at cost when purchased. Depreciation and amortization are computed on accelerated methods 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. The Company assesses the recoverability of property, plant and equipment by determining whether the depreciation and amortization of the asset balance over its remaining life can be recovered through undiscounted future operating cash flows.

(k) Excess of Cost Over Net Assets of Purchased Businesses

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

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(l) Income Taxes

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

(m) Research and Development Costs

Company-sponsored research and development costs include research and development and bid and proposal efforts related to U.S. Government and commercial 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 No. 52 (SFAS 52), "Foreign Currency Translation." The resulting translation adjustments are recorded as a separate component of shareholders' equity.

(o) Earnings (Loss) Per Share

Loss per share is based on the weighted average number of common shares outstanding. Earnings per share are based on the weighted average number of common shares outstanding plus shares issuable upon the assumed exercise of dilutive common share options, performance shares and warrants by using the treasury stock method. For 1996, earnings per share is computed using 11,579,840 and 11,638,408 common shares and common share equivalents outstanding for primary and fully diluted, respectively. For 1995, loss per share is computed using 10,973,315 common shares outstanding. For 1994, primary and fully diluted earnings per share are computed using 11,565,334 common shares and common share equivalents outstanding.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

2. Acquisitions/Divestitures (Unaudited)

On July 22, 1996, the Company completed the sale of its Hazeltine subsidiary to GEC-Marconi Electronic Systems Corporation (GEC). The Company sold 100% of the common stock of Hazeltine for $110 million in cash, resulting in a $48.5 million gain. Certain assets and liabilities of Hazeltine were retained by the Company.

The key financial statement accounts of Hazeltine which are included in the audited consolidated balance sheet at September 30, 1995 are as follows:

(Dollars in thousands)

Assets		Liabilities and Shareholders' Equity	
Accounts receivable, net	$ 8,073	Current liabilities	$24,070
Costs and estimated earnings on long-term contracts	9,720	Other liabilities	1,181
Inventories	21,204	Long-term debt	1,452
Net property, plant and equipment	34,046	Shareholders' equity	50,164
Other (current and noncurrent)	3,824		
Total	$76,867	Total	$76,867

Included in the 1996 and 1995 consolidated statements of operations are the operating results of Hazeltine prior to its divestiture as follows:

(Dollars in thousands)	1996	1995
Net sales	$93,987	114,196
Cost of sales	75,598	96,833
Selling, general and administrative expenses	12,859	14,198
Other costs and expenses, net	941	1,650
Earnings before income taxes	$ 4,589	1,515

On December 29, 1994, the Company purchased the assets of Ray Proof North America, a division of Shielding Systems Corporation, a wholly owned subsidiary of Bairnco Corporation for approximately $1.6 million. Ray Proof was primarily involved in the development, production, installation and test of anechoic absorber material and shielding room material.

On December 1, 1993, the Company acquired all outstanding stock of Schumacher Filters, Ltd. from Kraftanlagen, AG for approximately $7.6 million, and renamed the entity PTI Technologies Limited (PTI Ltd.). PTI Ltd. manufactures a variety of pleated, precision wound, and activated carbon filter cartridges for applications in the petrochemical, pharmaceutical, food and beverage and electronics industries.

These acquisitions have been accounted for using the purchase method of accounting.

3. Accounts Receivable

Accounts receivable consist of the following at September 30, 1996 and 1995:

(Dollars in thousands)	1996	1995
U.S. Government and prime contractors	$ 9,459	15,169
Commercial	17,596	23,459
Other	7,609	9,596
Total	$34,664	48,224

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

4. Inventories

Inventories consist of the following at September 30, 1996 and 1995:

(Dollars in thousands)	1996	1995
Finished goods	$ 5,927	4,442
Work in process - including long-term contracts	32,071	92,559
Raw materials	13,189	10,420
Total	$51,187	107,421

Under the contractual arrangements by which progress payments are received, the U.S. Government has a security interest in the inventories associated with specific contracts. Inventories are net of progress payment receipts of $1.2 million and $8.5 million at September 30, 1996 and 1995, respectively.

The 1996 nonrecurring charges of $25.3 million included $14.3 million in expense related to obsolete inventories.

5. Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment for the years ended September 30, 1996, 1995 and 1994 were $12,163,000, $12,695,000 and $12,367,000, respectively. As part of the 1993 Corporate Readjustment, property, plant and equipment was adjusted to reflect fair value and the balance of accumulated depreciation and amortization was eliminated.

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, 1996, 1995 and 1994 amounted to $4,759,000, $7,187,000 and $7,251,000, respectively. Future aggregate minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 1996 are:

(Dollars in thousands)	Years ending September 30:	
	1997	$ 3,196
	1998	2,575
	1999	1,878
	2000	1,599
	2001 and thereafter	3,480
	Total	$12,728

6. Income Tax Expense (Benefit)

The principal components of income tax expense (benefit) for the years ended September 30, 1996, 1995 and 1994 consist of:

(Dollars in thousands)	1996	1995	1994
Federal:			
Current	$ --	133	(1,010)
Deferred	(12,598)	(448)	4,177
State, local and foreign	1,224	1,070	1,181
Total	$(11,374)	755	4,348

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The actual income tax expense for the years ended September 30, 1996, 1995 and 1994 differs from the expected tax expense for those years (computed by applying the U.S. Federal statutory rate) as follows:

	1996	1995	1994
Federal corporate statutory rate	35.0%	35.0%	35.0%
Utilization of tax net operating loss carryforward	--	--	(35.0)
Financial statement goodwill amortization not recognized for tax purposes	1.1	(1.5)	1.2
Effect of Corporate Readjustment on temporary differences	102.2	(85.5)	33.0
Net change in the balance of the tax valuation allowance	100.2	51.8	--
Effect of subsidiary divestiture on temporary differences	(314.0)	--	--
Non-taxable income items	--	--	(8.0)
Permanent effect of net interest income attributable to long-term contracts	--	0.5	2.8
Income taxes, net of Federal benefits:			
State and local	4.3	1.4	4.5
Foreign	1.1	1.4	1.5
Other, net	(6.9)	(5.7)	(0.6)
Effective income tax rate	(77.0)%	(2.6)%	34.4%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 1996, 1995 and 1994 are presented below:

(Dollars in thousands)	1996	1995	1994
Deferred tax assets:			
Inventories, long-term contract accounting, contract cost reserves and others	$14,538	601	7,118
Pension and other postretirement benefits	9,402	9,538	10,153
Net operating loss carryforwards	42,188	39,366	27,761
Capital loss carryforwards	30,567	--	--
Other compensation-related costs and other cost accruals	2,948	11,278	5,721
Total deferred tax assets	99,643	60,783	50,753
Deferred tax liabilities:			
Plant and equipment, depreciation methods and acquisition asset allocations	(3,011)	(6,609)	(6,936)
Net deferred tax asset before valuation allowance	96,632	54,174	43,817
Less valuation allowance	(43,306)	(28,537)	(43,817)
Net deferred tax asset	$53,326	25,637	--

Based on the Company's historical pretax income, adjusted for significant nonrecurring items, together with management's projections of future taxable income, management believes it is more likely than not that the Company will realize a significant portion of the benefits of the net deferred tax asset existing at September 30, 1996.

In order to fully realize the deferred tax assets existing at September 30, 1996, the Company will need to generate future taxable income of approximately $120 million prior to the expiration of the net operating loss (NOL) carryforwards, which will begin to expire in 2006. Also, the Company will need to generate future capital gains of approximately $87 million prior to 2001, at which time the capital loss carryforward will expire.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Management believes that the Company will generate sufficient taxable income to absorb a majority of the net operating loss carryforwards and deductible temporary differences prior to expiration of the NOLs. There can be no assurance, however, that the Company will generate any taxable income or any specific level of continuing taxable income.

During the year ended September 30, 1996, the Company reduced its 1995 net deferred tax asset valuation allowance by $15.8 million, leaving a remaining balance of $12.7 million. Of the reduction, $15.1 million was credited directly to additional paid in capital, while the remaining $.7 million was credited to the provision for taxes. A full valuation allowance of $30.6 million was established against the deferred tax asset associated with the 1996 recognition of $87.3 million of capital loss resulting from the sale of Hazeltine.

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7. Debt
....

Long-term debt consists of the following at September 30, 1996 and 1995:

(Dollars in thousands)	1996	1995
Term loan	$12,675	20,000
Subordinated term loan, 9.25%	--	8,000
Other	--	1,452
	12,675	29,452
Less current maturities	1,300	6,000
Long-term debt	$11,375	23,452

In conjunction with the sale of Hazeltine in July 1996, the Company amended its bank credit facility. The Company maintained its $80 million revolving credit facility (subject to borrowing base asset limitations), repaid all outstanding short-term borrowings and paid down the bank term loan to $13 million. The $13 million term loan has scheduled amortization payments of $325,000 per quarter commencing in the quarter ended September 30, 1996. The maturity of the bank credit facility is September 30, 1998. The amended bank agreement also allowed the Company to use a portion of the Hazeltine sales proceeds to pay a special cash distribution to shareholders in 1996 and to repurchase a significant amount of outstanding ESCO common shares in the open market through the period ending September 30, 1998.

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

During 1996 and 1995, the maximum aggregate short-term borrowings at any month-end were $50 million and $57 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were $35.1 million and $40.8 million, respectively; and the weighted average interest rates were 6.9% and 7.3%, respectively. The weighted average interest rate throughout 1994 was 5.4%. The letters of credit issued and outstanding under the credit facility totaled $6.4 million and $7.9 million at September 30, 1996 and 1995, respectively. Borrowings under the revolving credit facility were $33 million at September 30, 1995.

The $8 million subordinated term loan payable to Textron, Inc. issued in connection with the purchase of PTI was repaid in 1996. The "Other debt" outstanding in 1995 was assumed by GEC.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

....
8. Capital Stock
....

The 12,415,346 and 11,574,420 common shares as presented in the accompanying consolidated balance sheets at September 30, 1996 and 1995 represent the actual number of shares issued at the respective dates. The Company held 566,622 and 570,472 common shares in treasury at September 30, 1996 and 1995, respectively.

Pursuant to a Deposit and Trust Agreement (the Trust Agreement), all of the outstanding shares of the Company's common stock are held in trust by a trustee on behalf of the persons otherwise entitled to hold the Company's common stock, and such persons, instead, hold common stock trust receipts (Receipts) representing the Company's common stock and associated preferred stock purchase rights (the Rights). Although the trustee is the record holder of the Company's common stock, each holder of a Receipt is generally entitled to all of the rights of a holder of the Company's common stock (including the right to vote and to receive dividends or other distributions), except in certain circumstances. If the Company fails in certain circumstances to collateralize its obligations to indemnify Emerson with respect to Emerson's guarantees of certain of the Company's government contracts and for so long as such failure continues, Emerson will have the right to direct the trustee how to vote in the election of directors and certain related matters.

During 1995, the Company adopted the 1994 Stock Option Plan, and in 1991, the Company adopted the 1990 Stock Option Plan (the Option Plans). The Option Plans permit the Company to grant key management employees (1) options to purchase shares of the Company's common stock (or Receipts representing such shares) or (2) stock appreciation rights with respect to all or any part of the number of shares covered by the options. As long as the Trust Agreement is in effect, an optionee will receive Receipts in lieu of shares. All outstanding options were granted at prices equal to fair market value at the date of grant. As a result of the $3.00 per share special cash distribution paid to shareholders in 1996 as a non-taxable return of capital, unexercised stock options were repriced, and the number of options outstanding were adjusted, using a method which resulted in no additional compensation expense to the Company. Information regarding stock options awarded under the Option Plans is as follows:

	Shares	Option Price Range per Share
Outstanding at September 30, 1995	1,135,301	$3.375 - $12.00
Granted, before repricing	497,250	$8.063 - $12.688
Exercised, before repricing	(806,255)	$3.375 - $12.00
Cancelled, before repricing	(119,257)	$7.938 - $12.688
Additional shares due to repricing	182,891	$4.114 - $12.00
Outstanding at September 30, 1996, as repriced	889,930	$4.114 - $12.00
At September 30, 1996:		
Reserved for future grant	339,424	
Exercisable	264,265	$4.114 - $12.00

During 1996, the Company announced a stock repurchase program. Under this program, the Company is authorized to purchase up to two million shares of its common stock in the open market over a period ending September 30, 1998.

During 1993, 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 may not exceed 550,000 shares. At September 30, 1996, 449,000 shares had been granted under the terms of the Plan.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

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. Pension expense for the years ended September 30, 1996, 1995 and 1994 is comprised of the following:

(Dollars in millions)	1996	1995	1994
Defined benefit plans:			
Service cost (benefits earned during the period)	$3.2	3.1	4.2
Interest cost	5.0	4.9	4.2
Actual return on plan assets	(5.5)	(5.0)	(3.3)
Net amortization and deferral	.8	.7	(.6)
Net periodic pension expense	3.5	3.7	4.5
Other	--	.1	(1.5)
Defined contribution plans	2.1	2.6	2.7
Total	$5.6	6.4	5.7

During 1994, the Company recognized a $2.5 million pretax curtailment gain resulting from a major reduction in staffing levels, and a $1 million pretax loss due to an early retirement incentive program. The gain was calculated under the provisions of Statement of Financial Accounting Standards No. 88 (SFAS 88), "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits."

The funded status of the Company's defined benefit pension plans at September 30, 1996 and 1995 is shown below:

(Dollars in millions)	1996	1995
Accumulated benefit obligation, including vested benefit obligation of $53.7 and $50.0 at September 30, 1996 and 1995, respectively	$57.3	53.8
Projected benefit obligation	71.0	68.3
Plan assets at fair value, primarily corporate equity and fixed income securities	58.4	52.1
Projected benefit obligation in excess of plan assets	12.6	16.2
Unrecognized transition amount	--	--
Unrecognized net loss	(2.9)	(6.5)
Unrecognized prior service costs	(.3)	(.4)
Additional minimum liability	1.8	2.1
Net pension liability (included in other liabilities)	$11.2	11.4

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The benefit obligations of the defined benefit plans as of September 30, 1996 and 1995 were both based on a discount rate of 7.5%, and an assumed rate of increase in compensation levels of 4%. The 1996, 1995 and 1994 pension expense for the defined benefit plans was based on a 7.5%, 8.5% and 7.75% discount rate, respectively; a 4%, 4.75% and 4% increase in compensation levels, respectively; and a 10% expected long-term rate of return on plan assets.

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

Net periodic postretirement benefit cost is comprised of the following:

(Dollars in millions)	1996	1995	1994
Service cost	$ .2	.3	.4
Interest cost	1.3	1.4	1.4
Other	--	(.1)	--
Net periodic postretirement benefit cost	$1.5	1.6	1.8

Accumulated postretirement benefit obligation for 1996 and 1995 by component is as follows:

(Dollars in millions)	1996	1995
Retirees	$13.2	14.2
Fully eligible active plan participants	.5	.6
Other active participants	3.0	3.4
Total accumulated postretirement benefit obligation	16.7	18.2
Plan assets	--	--
Accumulated postretirement benefit obligation in excess of plan assets	16.7	18.2
Unrecognized prior service cost	.1	.1
Unrecognized net gain (loss)	.1	(.7)
Accrued postretirement benefit obligation (included in other liabilities)	$16.9	17.6

The accumulated postretirement benefit obligations of the plans as of September 30, 1996 and 1995 were both based on a discount rate of 7.5%. The September 30, 1995 accumulated postretirement benefit obligation was based on a health care cost trend of 8.5% for fiscal 1996, gradually grading down to an ultimate rate of 5.5% by fiscal 2002. The September 30, 1996 accumulated postretirement benefit obligation was based on a health care cost trend of 8% for fiscal 1997, gradually grading down to an ultimate rate of 5.5% by fiscal 2002. A 1% increase in the health care cost trend rate for each year would increase the September 30, 1996 accumulated postretirement benefit obligation by approximately $350,000.

The 1996, 1995 and 1994 net periodic postretirement benefit costs were based on a discount rate of 7.5%, 8.5% and 7.75%, respectively. The 1996 net periodic postretirement benefit cost was based on an assumed health care cost trend of 8.5% for fiscal 1996, gradually grading down to 5.5% by fiscal 2002. The 1995 net periodic postretirement benefit cost was based on an assumed health care cost trend of 9% for fiscal 1995, gradually grading down to 5.5% by fiscal 2002. The 1994 net periodic postretirement benefit cost was based on assumed health care cost trend of 9.5% for fiscal 1994, gradually grading down to 5% by fiscal 2003. 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 1996 net periodic postretirement benefit cost by approximately $30,000.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

10. Other Financial Data

Items charged to operations during the years ended September 30, 1996, 1995 and 1994 included the following:

(Dollars in thousands)	1996	1995	1994
Maintenance and repairs	$ 5,826	5,664	6,908
Salaries and wages	136,783	147,813	162,978
Research and development costs:			
Company-sponsored	11,905	15,067	14,656
Customer-sponsored	3,894	10,056	9,721
Total	$ 15,799	25,123	24,377

The decrease in 1996 research and development costs is due to lower spending at Hazeltine prior to its divestiture.

Accrued expenses included accrued employee compensation of $8,820,000 and $11,666,000 at September 30, 1996 and 1995, respectively.

11. Business Segment Information

The Company's principal business segments are defense and commercial. Summarized below is the Company's business segment information for the years ended September 30, 1996, 1995 and 1994. Sales between segments have been eliminated. Corporate expenses and assets have been allocated to the segment data on a systematic basis. Hazeltine primarily operated within the defense segment prior to its divestiture in 1996.

(Dollars in thousands)	1996	1995	1994
Net sales:			
Defense	$300,970	345,076	387,160
Commercial	137,573	95,947	86,695
	$438,543	441,023	473,855
Operating profit (loss), excluding nonrecurring charges:			
Defense	$ (6,542)	16,804	18,653
Commercial	7,902	5,276	5,633
	$ 1,360	22,080	24,286
Identifiable assets:			
Defense	$191,588	283,617	257,445
Commercial	116,244	94,384	90,041
	$307,832	378,001	347,486
Depreciation and amortization:			
Defense	$ 8,001	9,955	9,905
Commercial	5,485	4,087	3,747
	$ 13,486	14,042	13,652
Capital expenditures:			
Defense	$ 5,204	7,859	6,191
Commercial	3,354	3,287	3,940
	$ 8,558	11,146	10,131

Net sales derived from U.S. Government agencies, either through direct sales or through other prime contractors, totaled $231,503,000, $307,970,000 and $352,545,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

International sales included in net sales for the years ended September 30, 1996, 1995 and 1994 are as follows:

(Dollars in thousands)	1996	1995	1994
Europe	$ 53,856	44,111	32,181
Middle East	19,223	27,314	45,031
Far East	48,391	32,362	20,095
Other	23,215	25,308	18,206
Total	$144,685	129,095	115,513

Hazeltine's international sales for 1996, 1995 and 1994 were $58.6 million, $58.4 million and $41.4 million, respectively. The 1996 European sales increase primarily reflects additional sales of Combined Interrogator Transponders (CIT) at Hazeltine prior to divestiture and volume increases at SEI and PTI Ltd. The decrease in Middle East volume reflects lower sales due to Hazeltines divestiture. The Far East increase is primarily attributable to increased sales of defense systems at SEI.

12. Transactions With Emerson

(a) Contract Guarantee Arrangement

Emerson has directly or indirectly guaranteed or is otherwise liable for the performance of most of the Company's contracts with its customers which existed at September 30, 1990 (the Guaranteed Contracts). The Guaranteed Contracts include substantially all U.S. Government contracts entered into by SEI and selected U.S. Government contracts entered into by Rantec Microwave & Electronics, Inc. and Hazeltine prior to September 30, 1990. As of September 30, 1996, the aggregate backlog of all firm orders received by the Company included Guaranteed Contracts of $8,768,000. At September 30, 1996, there were open letters of credit with an aggregate value of $2,443,000 related to foreign advance payments in support of various contracts that are directly or indirectly guaranteed by Emerson.

In consideration of these guarantees, and in connection with the spin-off, the Company paid Emerson a guarantee fee of $7,400,000 per year during the five-year period ended September 30, 1995. See Note 1(e) for discussion of the 1995 change in accounting related to the guarantee fee.

(b) Lease and Building Services

SEI, as tenant, entered into a building lease and a services agreement with Emerson effective October 1, 1990. The building lease and services agreement was terminated as of September 30, 1995, therefore, there was no expense recorded in 1996. Rental expense under this lease and other expenses for related building services aggregated $4,244,000 and $4,956,000 for the years ended September 30, 1995 and 1994, respectively.

13. Commitments and Contingencies

At September 30, 1996, the Company had $8,850,000 in letters of credit outstanding as guarantees of contract performance.

In 1994, an action was commenced against the Company's Hazeltine subsidiary alleging injury caused by Hazeltine's purported release of hazardous materials. The Company believes that no one and no property has been injured by any release of hazardous substances from Hazeltine's plant. In 1996, the plaintiffs filed a motion to be certified as a class. Hazeltine has opposed this motion and the decision is pending. Based upon the current facts, the Company is not able to estimate the probable outcome. Therefore, no provision for this litigation has been made in the accompanying consolidated financial statements. Management believes the Company will be successful in defending this action and that the outcome will not have a material adverse effect on the Company's financial statements. This contingent liability was retained by the Company.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

As a normal incidence of the business in which the Company is engaged, various claims, charges and litigation are asserted or commenced against the Company. In the opinion of management, final judgments, if any, which might be rendered against the Company in current litigation are adequately reserved, covered by insurance, or would not have a material adverse effect on its financial statements.

14. Nonrecurring Charges

Nonrecurring charges of $25.3 million in 1996 represent non-cash pretax charges to reflect recent events which impacted the value of certain assets on the Company's balance sheet. The items affected include $14.3 million of inventories which management has determined are obsolete, $6 million of costs included in other assets incurred in anticipation of certain defense contract awards which the Company no longer expects to receive, and a $5 million adjustment in the Company's estimate of recoveries in a contract dispute.

Nonrecurring charges of $35.4 million incurred during 1995 were related to the facilities consolidation program implemented in 1995 and the change in accounting estimates for certain prepaid assets. The 1995 charges include: an $11.1 million non-cash pretax charge relating to performance guarantees on certain contracts; an $8.6 million pretax charge for a non-cash write-off related to the accounting for the lease on the 8100 West Florissant, St. Louis, Missouri facilities which were vacated; a $7.9 million non-cash pretax charge associated with the disposition of inventories resulting from the consolidation program and related restructuring of the Company's West Coast operations; and a $7.8 million pretax charge for exit and relocation costs.

15. Quarterly Financial Information (Unaudited)

(Dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1996					
Net sales	$112,610	117,444	109,103	99,386	438,543
Gross profit	23,420	25,108	1,506	21,790	71,824
Gain on sale of Hazeltine	--	--	--	(48,500)	(48,500)
Nonrecurring charges	--	--	25,300	--	25,300
Net earnings (loss)	1,922	2,414	(19,411)	41,211	26,136
Earnings (loss) per share:					
Primary	$ .17	.20	(1.72)	3.47	2.26
Fully diluted	.17	.20	(1.72)	3.46	2.25
1995					
Net sales	$ 98,191	109,797	107,939	125,096	441,023
Gross profit	22,949	25,652	24,049	23,592	96,242
Nonrecurring charges	10,914	17,362	1,968	5,127	35,371
Net loss	(9,052)	(15,048)	(1,233)	(4,927)	(30,260)
Loss per common share	$ (.83)	(1.37)	(.11)	(.45)	(2.76)

The 1996 quarterly financial information (unaudited) reflects the impact of the July 1996 sale of Hazeltine and the related gain.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Independent Auditors' Report

The Board of Directors and Shareholders
ESCO Electronics Corporation:

We have audited the accompanying consolidated balance sheets of ESCO Electronics Corporation and subsidiaries as of September 30, 1996 and 1995, 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, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ESCO Electronics Corporation and subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 1(e) to the consolidated financial statements, in 1995, the Company changed its method of accounting for certain guarantee fees.

/s/ KPMG Peat Marwick LLP

St. Louis, Missouri
November 13, 1996

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Shareholders' Summary

Capital Stock Information

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

There were approximately 9,700 holders of record of trust receipts representing shares of common stock at November 1, 1996.

Common Stock Market Prices

The Company's common stock trust receipts and the underlying common stock and associated preferred stock purchase rights (subsequently referred to as common stock) are listed on the New York Stock Exchange under the symbol "ESE." The following table summarizes the high and low prices (excluding the impact of the $3.00 per share cash distribution paid September 27, 1996) of the Company's common stock for each quarter of 1996 and 1995:

	1996		1995	
Quarter	High	Low	High	Low
First	9 3/4	7 7/8	10 5/8	6 1/2
Second	14	8 7/8	8 7/8	6 5/8
Third	14 5/8	10 7/8	9 1/4	7 5/8
Fourth	13 1/4	10 1/4	9 3/8	8

EXHIBIT 21

SUBSIDIARIES OF
ESCO ELECTRONICS CORPORATION

NAME	STATE OR JURISDICTION OF INCORPORATION OR ORGANIZATION	NAME UNDER WHICH IT DOES BUSINESS
Defense Holding Corp.	Delaware	Same
Distribution Control Systems, Inc.	Missouri	Same
EMC Test Systems, L.P.	Texas	Same
PTI Technologies Inc.	Delaware	Same
PTI Technologies Limited	England	Same
Rantec Microwave & Electronics, Inc.	Delaware	Same
Systems & Electronics Inc.	Delaware	Same
Vacco Industries	California	Same

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
ESCO Electronics Corporation:

We consent to incorporation by reference in the registration statements (Nos. 33-39737, 33-47916, and 33-98112) on Form S-8 of ESCO Electronics Corporation of our report dated November 13, 1996, relating to the consolidated balance sheets of ESCO Electronics Corporation and subsidiaries as of September 30, 1996 and 1995, 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, 1996, which report is incorporated by reference in the September 30, 1996 Annual Report on Form 10-K of ESCO Electronics Corporation. Our report refers to a change in the method of accounting for certain guarantee fees in fiscal year 1995.

KPMG Peat Marwick LLP

St. Louis, Missouri
December 13, 1996

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12-MOS
SEP-30-1996
OCT-01-1995
SEP-30-1996
22,209
0
34,937
273
51,187
162,650
80,351
26,325
307,832
76,464
0
124
0
0
191,009
307,832
438,543
487,043
366,719
437,183
5,017
25,300
4,781
14,762
(11,374)
26,136
0
0
0
26,136
2.26
2.25

This number does not include 51.6 million of Costs and Estimated Earnings on Long-Term Contracts.