



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended September 30, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-10596

**ESCO Technologies Inc.**

(Exact name of registrant as specified in its charter)

Missouri  
(State or other jurisdiction  
of incorporation or organization)

43-1554045  
(I.R.S. Employer  
Identification No.)

9900A Clayton Road  
St. Louis, Missouri  
(Address of principal executive offices)

63124-1186  
(Zip Code)

Registrant's telephone number, including area code:

(314) 213-7200

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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 such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Aggregate market value of the Common Stock held by non-affiliates of the registrant as of the close of trading on March 31, 2008: \$1,012,607,897\*.

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

Number of shares of Common Stock outstanding at November 25, 2008: 26,113,797.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 2008 (the "2008 Annual Report") (Parts I

and II).

2. Portions of the registrant's Proxy Statement dated December 18, 2008 (the "2009 Proxy Statement") (Part III).

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PART I

**Item 1. Business**

**THE COMPANY**

ESCO Technologies Inc. (“ESCO”) is a producer of engineered products and systems sold to customers worldwide, primarily for utility, industrial and commercial applications. ESCO operates in three operating segments which, together with the operating subsidiaries within each segment, are as follows:

Utility Solutions Group (“Utility Solutions”):

Aclara Power-Line Systems Inc. (“Aclara PLS”)

Aclara RF Systems Inc. (“Aclara RF”)

Aclara Software Inc.

Distribution Control Systems Caribe, Inc.

Doble Engineering Company

Doble TransiNor AS

Doble PowerTest Limited

LDIC GmbH

LDIC AG

Comtrak Technologies, L.L.C. (“Comtrak”)

RF Shielding and Test (“Test”):

ETS-Lindgren L.P.

Lindgren RF Enclosures, Inc.

ETS-Lindgren OY

ETS-Lindgren Limited

Beijing Lindgren ElectronMagnetic Technology Co., Ltd.

ETS-Lindgren Japan, Inc.

Filtration/Fluid Flow (“Filtration”):

PTI Technologies Inc. (“PTI”)

VACCO Industries (“VACCO”)

TekPackaging LLC

In conjunction with the acquisition of Doble in November 2007, the Company changed the name of the Communications segment to the Utility Solutions Group segment, and renamed its advanced metering infrastructure (“AMI”) businesses as follows: Distribution Control Systems, Inc. was renamed Aclara Power-Line Systems, Inc; Hexagram, Inc. was renamed Aclara RF Systems Inc.; and Nexus Energy Software, Inc. was renamed Aclara Software Inc.

The Aclara entities listed above are hereinafter sometimes collectively referred to as “Aclara”. The Doble entities listed above are hereinafter collectively referred to as “Doble”. All of the Test segment entities listed above are hereinafter collectively referred to as “ETS-Lindgren”. The LDIC entities listed above are hereinafter collectively referred to as “LDIC”.

The above operating subsidiaries are engaged primarily in the research, development, manufacture, sale and support of the products and systems described below, and are subsidiaries of ESCO Technologies Holding Inc., a wholly-owned direct subsidiary of ESCO. ESCO and its direct and indirect subsidiaries are hereinafter referred to collectively as the “Company”. The Company’s businesses are subject to a number of risks and uncertainties, including without limitation those discussed in Item 1A below. See also “Management’s Discussion and Analysis” appearing in the 2008 Annual Report, which is herein incorporated by reference, and “Forward-Looking Information” below.

On November 30, 2007, the Company acquired the capital stock of Doble for a purchase price of approximately \$328 million, net of cash acquired. Doble, headquartered in Watertown, Massachusetts, is a worldwide supplier of high-end diagnostic test equipment and services for the electric utility industry, with annual revenues of approximately \$75 million.

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On July 31, 2008, the Company acquired the capital stock of LDIC for a purchase price of approximately \$13 million, net of cash acquired. LDIC, with operations in Germany and Switzerland, is a manufacturer of partial discharge diagnostic testing instruments and systems serving the international electric utility industry, with annual revenues of approximately \$10 million. From an operations perspective, LDIC reports into the Doble organization.

### **DISCONTINUED OPERATIONS**

On November 25, 2007, the Company completed the sale of its Filtertek businesses (excluding the former TekPackaging division, now operating as TekPackaging LLC) to Illinois Tool Works Inc. for \$74.4 million, net. The Filtertek businesses are accounted for as discontinued operations in the Consolidated Financial Statements in the 2008 Annual Report in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The following sections of this Item 1 refer to the Company's continuing operations, except where noted. Accordingly, dollar amounts and percentages presented below in this Item 1 for all periods reflect continuing operations by excluding the Filtertek businesses. See Note 2 of the Notes to Consolidated Financial Statements in the 2008 Annual Report, which Note is herein incorporated by reference.

### **PRODUCTS**

The Company's products are described below. See Note 15 of the Notes to Consolidated Financial Statements in the 2008 Annual Report for financial information regarding segments, which Note is herein incorporated by reference.

#### UTILITY SOLUTIONS

The Utility Solutions segment accounted for approximately 58%, 44% and 41% of the Company's total revenue in fiscal years 2008, 2007 and 2006, respectively.

Aclara PLS is a leading manufacturer of two-way power line communication systems for the electric utility industry (the "TWACS® systems"), which are composed of equipment (primarily meter modules and equipment for central stations and substations), software and support services. The Company, in fiscal 2008, completed the development of its TWACS NG™ software and released it for commercial use. The TWACS systems provide electric utilities with a proprietary communication technology for automatic meter reading, load control, interval data, outage assessment/restoration monitoring, remote service disconnect/connect, time-of-use data for critical peak pricing, tamper/theft detection and pre-paid metering. Revenue from the TWACS systems, which may be considered a class of similar products, accounted for approximately 25%, 29% and 32% of the Company's total revenue in fiscal years 2008, 2007 and 2006, respectively. In November 2005, Aclara PLS entered into a contract to provide equipment, software and services to Pacific Gas & Electric (PG&E) in support of the electric portion of PG&E's AMI project. The contract value was initially expected to total approximately \$310 million over a five-year period; however, during the third quarter of fiscal 2007, PG&E announced its plans to evaluate alternative electric AMI technologies for the project. In light of PG&E's announcement and its subsequent purchase of other technologies, including products from Aclara RF as described below, for the electric portion of the project, Aclara PLS and PG&E entered into an amendment to the contract effective September 30, 2008 which allowed the Company to recognize certain revenue and profit in the fiscal 2008 fourth quarter. The Company now believes that further purchases, if any, made by PG&E under the contract will not be material. Total revenues under the contract were \$34.3 million for fiscal 2008.

Aclara RF provides, through its STAR® network, wireless radio frequency ("RF") data communications systems to gas, water and electric utilities for AMI applications. The STAR network provides accurate and timely billing, high/low consumption reporting, and non-revenue water loss detection. In November 2005, Aclara RF entered into a contract with PG&E to provide its communications system for the gas meter portion of PG&E's AMI Project, and also gave PG&E the option to purchase Aclara RF's fixed network systems for

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the electric portion of the Project. The total anticipated contract revenue through the full five-year gas portion deployment is approximately \$225 million; however, items will be purchased only upon issuance of purchase orders at the election of PG&E, and the contract is subject to certain contingencies and uncertainties. Total revenue received by Aclara RF in fiscal 2008 from the gas meter portion of this contract was \$69.7 million. Under this contract, in fiscal 2008, PG&E ordered approximately 290,000 RF fixed network electric units, as well as purchasing electric units from a competing vendor. Currently, PG&E and Aclara RF are negotiating an amendment to this contract to define the terms for any future purchases of additional electric units; however, the timing and likelihood of future orders for additional RF electric units remain uncertain. For further discussion of this contract and certain related contingencies and uncertainties, see Item 1A Risk Factors and "Management's Discussion and Analysis – Pacific Gas & Electric" appearing in the 2008 Annual Report.

The Company's total sales to PG&E in fiscal 2008, comprising all Aclara sales described above, were \$110.2 million, which represented approximately 18% of the Company's consolidated net sales.

Aclara Software Inc. provides utilities with software systems for energy and water information, delivering a scalable meter data management system ("MDMS"), comprehensive AMI/meter device records and asset management, proven business applications addressing areas such as revenue assurance and distribution asset analysis, and the industry's leading customer presentment and analysis applications. Aclara's analytics-based software applications are used by over 100 major energy organizations worldwide.

Doble is a supplier of high-end electronic diagnostic test products and services to the electric utility industry for the evaluation of power assets. It is a leading supplier of partial discharge testing instruments used to assess the integrity of high voltage power delivery equipment. Doble has been operating for over 80 years, and serves customers in 75 countries worldwide.

Comtrak manufactures advanced digital video security monitoring systems for commercial and industrial applications. Comtrak is continuing to work jointly with ADT Security Services, Inc., who is selling this system under its SecurVision® trademark.

## TEST

The Test segment accounted for approximately 23%, 32% and 34% of the Company's total revenue in fiscal years 2008, 2007 and 2006, respectively.

ETS-Lindgren designs and manufactures products to measure and contain magnetic, electromagnetic and acoustic energy. It supplies customers with a broad range of isolated environments including RF test enclosures, acoustic test enclosures, RF and magnetically shielded rooms, secure communication facilities and broadcast and recording studios. Many of these facilities include proprietary features such as shielded doors and windows. ETS-Lindgren also provides the design, program management, installation and integration services required to successfully complete these types of facilities.

ETS-Lindgren also supplies customers with a broad range of components including RF absorptive materials, RF filters, active compensation systems, antennas, antenna masts, turntables and electric and magnetic probes, RF test cells, proprietary measurement software and other test accessories required to perform a variety of tests. ETS-Lindgren also offers a variety of services including calibration for antennas and field probes, chamber certification, field surveys, customer training and a variety of product tests. ETS-Lindgren operates the following accredited test labs: American Association for Laboratory Accreditation ("A2LA"), National Voluntary Laboratory Accreditation Program ("NAVLAP") and CATL (CTIA-The Wireless Association ("CTIA") Accredited Test Lab). In addition, ETS-Lindgren serves the acoustics, medical, health and safety, electronics, wireless communications, automotive and defense markets.



## FILTRATION

The Filtration segment accounted for approximately 19%, 24% and 26% of the Company's total revenue in fiscal years 2008, 2007 and 2006, respectively.

PTI is a leading supplier of filtration products serving the commercial aerospace, military aerospace and various industrial markets. The industrial markets include chemical processing, automotive and mobile equipment. Products include filter elements, assemblies, modules, indicators and other related components. All products must meet stringent quality requirements and withstand severe operating conditions. Product applications include aircraft, helicopters and mobile equipment hydraulic systems, aircraft engines and plant equipment. PTI supplies products worldwide to original equipment manufacturers and the U.S. government under long term contracts, and to the commercial aftermarkets through distribution channels.

VACCO supplies flow control products, valves and filters to the space, defense and commercial industries for use in aircraft, satellite propulsion systems, satellite launch vehicles, the space shuttle and its successor, Project Constellation. VACCO also uses its etched disc technology to produce quiet valves and manifolds for U.S. Navy applications.

TekPackaging LLC produces highly engineered thermoformed and security packaging products for medical, food and electronics products.

## **MARKETING AND SALES**

The Filtration and Test segments' products, as well as Doble's products, generally are distributed to customers through a domestic and foreign network of distributors, sales representatives and in-house salespersons. Aclara's sales to investor-owned utilities are made directly to the utilities through its sales team. Aclara utilizes distributors and direct sales representatives to sell its systems to the electric utility cooperative and municipal markets, and to gas, water and combination utilities. Aclara's software products are marketed utilizing its in-house sales force.

The Company's international sales accounted for approximately 21%, 19% and 19% of the Company's total sales in the fiscal years ended September 30, 2008, 2007 and 2006, respectively. See Note 15 of the Notes to Consolidated Financial Statements in the 2008 Annual Report for financial information regarding geographic areas, which Note is herein incorporated by reference. See also Item 1A Risk Factors for a discussion of risks of the Company's international operations.

Some of the Company's products are sold directly or indirectly to the U.S. Government under contracts with the Army, Navy and Air Force and subcontracts with prime contractors of such entities. Direct and indirect sales to the U.S. Government, primarily related to the Filtration segment, accounted for approximately 6%, 8% and 8% of the Company's total sales in the fiscal years ended September 30, 2008, 2007 and 2006, respectively.

## **INTELLECTUAL PROPERTY**

The Company owns or has other rights in various forms of intellectual property (i.e., patents, trademarks, service marks, copyrights, mask works, trade secrets and other items). As a major supplier of engineered products to growing industrial and commercial markets, the Company emphasizes developing intellectual property and protecting its rights therein. However, the scope of protection afforded by intellectual property rights, including those of the Company, is often uncertain and involves complex legal and factual issues. Some intellectual property rights, such as patents, have only a limited term. Also, there can be no assurance that third parties will not infringe or design around the Company's intellectual property. Policing unauthorized use of intellectual property is difficult, and copyright infringement is a persistent problem for many companies, particularly in some international markets. In addition, the Company may not elect to pursue an unauthorized user due to the high costs and uncertainties associated with litigation. Further, there can be no assurance that courts will ultimately hold issued patents valid and enforceable. See Item 1A Risk Factors.

In the Utility Solutions segment, many of the products are based on patented or otherwise proprietary technology, including the Company's TWACS® technology. The TWACS systems are protected primarily by a number of patents expiring on various dates ending in 2017. Patents covering significant aspects of the TWACS technology will expire in 2010 for outbound signal reception and in 2017 for inbound signal generation. Other patents covering inbound and outbound signal detection expired in 2007. The Utility

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Solutions segment policy is to seek patent and/or other forms of intellectual property protection on new and improved products, components of products and methods of operation for its businesses, as such developments are made. The Company plans to protect the TWACS NG™ software code as a trade secret, although certain discrete features and functionality may be patented. The Company holds two significant patents which cover the operation of its STAR® network communications systems. These will expire in 2015 and 2016. Doble holds an extensive library of apparatus performance information useful to Doble employees and to entities that generate, distribute or consume electric energy. Doble makes part of this library available to registered users via an Internet portal.

In the Test segment, patent protection has been sought for significant inventions. Examples of such inventions include novel designs for window and door assemblies used in shielded enclosures and anechoic chambers, improved acoustic techniques for sound isolation and a variety of unique antennas.

With respect to the Filtration segment, a number of products are based on patented or otherwise proprietary technology that sets them apart from the competition. VACCO's proprietary quieting technology, which it protects as trade secrets, is a significant differentiator for products supplied to the U.S. Navy submarine fleet.

The Company considers its patent and other intellectual property to be of significant value in each of its segments. The Utility Solutions segment owns intellectual property, including its TWACS technology, which it deems necessary or desirable for the manufacture, use or sale of its products. See the references to the TWACS NG software above in this section and in "Utility Solutions" on page 2 of this report. No other segment is materially dependent on any single patent, group of patents or other intellectual property.

## **BACKLOG**

Total Company backlog at September 30, 2008 was \$266.8 million, representing an increase of \$9.2 million (3.6%) from the beginning of the fiscal year backlog of \$257.6 million. The backlog of firm orders at September 30, 2008 and September 30, 2007, respectively, was: \$71.5 million and \$74.4 million for Filtration; \$125.5 million and \$123.2 million for Utility Solutions; and \$69.8 million and \$60.0 million for Test. As of September 30, 2008, it is estimated that domestic customers accounted for approximately 76% of the Company's total firm orders, and international customers accounted for approximately 24%. Of the Company's total backlog of orders at September 30, 2008, approximately 88% is expected to be completed in the fiscal year ending September 30, 2009. All of the above calculations exclude the Filtertek businesses.

## **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 materials requirements, certain components and raw materials are supplied by sole-source vendors, and the Company's ability to perform certain contracts depends on their performance. In the past, these required raw materials and various purchased components generally have been available in sufficient quantities. However, in each of the Company's segments, there are instances of some risk of shortages of materials or components due to reliance on sole or limited source of supply. See Item 1A Risk Factors.

In the Utility Solutions segment, Aclara has arrangements with three independent manufacturers which produce and supply substantially all of Aclara's power-line end-products. Two of these manufacturers are industry leaders with worldwide operations. Each of these manufacturers is directed by Aclara to purchase certain unique raw material components from suppliers designated by Aclara. Aclara also has contracts with certain of the raw material suppliers, directing them to supply such raw materials to Aclara's manufacturers. In addition to its internal manufacturing of RF end-products, Aclara has contracts with two independent manufacturers which produce and supply a significant amount of such end-products, as well as contracts with several of the suppliers of the raw materials that are incorporated into such end-products. The Company believes that the above-described manufacturers and suppliers will be reliable sources for Aclara's end-products for the foreseeable future.

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The Test segment is a vertically integrated supplier of electro-magnetic (“EM”) shielding products, producing most of its critical RF components. However, this segment purchases significant quantities of raw materials such as steel, copper, nickel and wood. Accordingly, the segment is subject to price fluctuations in the worldwide raw materials markets. In fiscal 2008, this segment experienced significant price increases in the metal markets as compared to the prior year.

The Filtration segment purchases supplies from a wide array of vendors. In most instances, multiple vendors of raw materials are screened during a qualification process to ensure that there will not be an interruption of supply should one of them discontinue operations. Nonetheless, in some situations, there is a risk of shortages due to reliance on a limited number of suppliers or because of price fluctuations due to the nature of the raw materials.

### **COMPETITION**

Competition in the Company’s major markets is broadly based and global in scope. The Company faces intense competition from a large number of companies for nearly all of its products. Competition can be particularly intense during periods of economic slowdown, and this has been experienced in some of the Filtration markets. Although the Company is a leading supplier in several of the markets it serves, it maintains a relatively small share of the business in many of the other markets it serves. Individual competitors range in size from annual revenues of less than \$1 million to billion dollar enterprises. Because of the specialized nature of the Company’s products, its competitive position with respect to its products cannot be precisely stated. However, Aclara is believed to be a leading supplier in the fixed network segment of the AMI market. This fixed network segment comprises a substantial part of the total AMI market for utilities. Substantial efforts are required in order to maintain existing business levels. In the Company’s major served markets, competition is driven primarily by quality, technology, price and delivery performance. See Item 1A Risk Factors.

Primary competitors of the Utility Solutions segment in the utility communications market include Itron, Inc., Silver Spring Networks, Landis + Gyr, Cannon Technologies Inc., Sensus Metering Systems Inc., Trilliant Inc., Elster Electricity, L.L.C., Comverge, Inc., Neptune Technology Group, e-Meter Corporation and Oracle Corporation.

The Test segment is the global leader in the EM shielding market. Significant competitors in this served market include TDK RF Solutions Inc., Albatross GmbH, IMEDCO AG and Cuming Corporation.

Primary competitors of the Filtration segment include Pall Corporation, Moog, Inc., SoFrance, Allied Signal and Clarcor Inc.

### **RESEARCH AND DEVELOPMENT**

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

The Company performs research and development at its own expense, and also engages in research and development funded by customers. For the fiscal years ended September 30, 2008, 2007 and 2006, total Company-sponsored research and development expenses were approximately \$33.0 million, \$23.5 million and \$18.3 million, respectively. Total customer-sponsored research and development expenses were approximately \$5.3 million, \$3.7 million and \$2.5 million for the fiscal years ended September 30, 2008, 2007 and 2006, respectively. All of the foregoing expense amounts exclude certain engineering costs primarily associated with product line extensions, modifications and maintenance, which amounted to approximately \$10.5 million, \$9.1 million and \$9.1 million for the fiscal years ended September 30, 2008, 2007 and 2006, respectively.

## **ENVIRONMENTAL MATTERS**

The Company is involved in various stages of investigation and cleanup relating to environmental matters. It is very difficult to estimate the potential costs of such matters and the possible impact of these costs on the Company at this time due in part to: the uncertainty regarding the extent of pollution; the complexity of Government laws and regulations and their interpretations; the varying costs and effectiveness of alternative cleanup technologies and methods; the uncertain level of insurance or other types of cost recovery; and in the case of off-site waste disposal facilities, the uncertain level of the Company's relative involvement and the possibility of joint and several liability with other contributors under applicable law. Based on information currently available, the Company does not believe that the aggregate costs involved in the resolution of any of its environmental matters will have a material adverse effect on the Company's financial statements.

## **GOVERNMENT CONTRACTS**

The Company's contracts with the U.S. Government and subcontracts with prime contractors of the U.S. Government are primarily firm fixed-price contracts under which work is performed and paid for at a fixed amount without adjustment for the actual costs experienced in connection with the contracts. Therefore, unless the customer actually or constructively alters or impedes the work performed, all risk of loss due to cost overruns is borne by the Company. However, VACCO has had an increasing number of "cost plus fixed fee" contracts awarded. All Government prime contracts and virtually all of the Company's subcontracts provide that they may be terminated at the convenience of the Government. Upon such termination, the Company is normally entitled to receive equitable compensation. See "Marketing And Sales" in this Item 1 and Item 1A Risk Factors for additional information regarding Government contracts.

## **EMPLOYEES**

As of November 7, 2008, the Company employed approximately 2,200 persons.

## **FINANCING**

On November 30, 2007, in conjunction with the acquisition of Doble, the Company entered into a \$330 million five-year revolving credit facility with a \$50 million increase option. This facility replaced the Company's \$100 million credit facility that would have otherwise matured in October 2009. The current facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of sixteen banks, led by National City Bank as agent, with a maturity of November 30, 2012. The facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. See "Management's Discussion and Analysis – Capital Resources and Liquidity" in the 2008 Annual Report, and Note 9 of the Notes to Consolidated Financial Statements in the 2008 Annual Report, which information is herein incorporated by reference.

## **HISTORY OF THE BUSINESS**

ESCO was incorporated in Missouri in August 1990 as a wholly-owned subsidiary of Emerson Electric Co. ("Emerson") to be the indirect holding company for several Emerson subsidiaries, which were primarily in the defense business. Ownership of ESCO and its subsidiaries was distributed on October 19, 1990 by Emerson to its shareholders through a special distribution. Since that time, through a series of acquisitions and divestitures, the Company has shifted its primary focus from defense contracting to the supply of engineered products marketed to industrial and commercial users. See Note 3 of the Notes to Consolidated Financial Statements in the 2008 Annual Report, which Note is herein incorporated by reference. Effective July 10, 2000, ESCO changed its name from ESCO Electronics Corporation to ESCO Technologies Inc.

The Filtrertek businesses, which were divested in fiscal 2008, are discussed under "Discontinued Operations" in this Item 1.

## AVAILABLE INFORMATION

The Company makes available free of charge through its Internet website, [www.escotechnologies.com](http://www.escotechnologies.com), its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

### **Item 1A. Risk Factors**

This Form 10-K, including Item 1 “Business,” Item 2 “Properties”, Item 3 “Legal Proceedings” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (incorporated by reference to “Management’s Discussion and Analysis” appearing in the 2008 Annual Report), contains “forward-looking statements” within the meaning of the safe harbor provisions of the federal securities laws. In addition to the risks and uncertainties discussed elsewhere in this Form 10-K, the following are important risk factors which could cause actual results and events to differ materially from those contained in any forward-looking statements.

#### **NEGATIVE WORLDWIDE ECONOMIC CONDITIONS AND RELATED CREDIT SHORTAGES COULD RESULT IN A DECREASE IN THE COMPANY’S SALES AND AN INCREASE IN ITS OPERATING COSTS, WHICH COULD ADVERSELY AFFECT ITS BUSINESS AND OPERATING RESULTS.**

During October 2008, the U.S. and most of the major European governments took action to infuse capital into a number of significant global financial services companies. There can be no assurance, however, that these actions will stem the extreme levels of volatility in global and U.S. financial markets and the limited credit availability currently experienced. If there is a worsening of current global and U.S. economic and financial market conditions and additional tightening of global credit markets, many of the Company’s customers may delay or reduce their purchases of its products. The current financial crisis may cause the utility industry to experience shortages in available credit, which could limit capital spending. To the extent this problem affects customers of the Utility Solutions segment, the sales and profits of this segment could be adversely affected. Likewise, if the Company’s suppliers face challenges in obtaining credit, they may have to increase their prices or become unable to continue to offer the products and services the Company uses to manufacture its products, which could have an adverse effect on its business, results of operations and financial condition.

#### **CONTINUED NEGATIVE WORLDWIDE ECONOMIC CONDITIONS COULD ADVERSELY AFFECT TRADING IN THE COMPANY’S STOCK.**

Uncertainty about current global and U.S. economic conditions could also increase the volatility and adversely affect the trading price of the Company’s stock.

#### **CREDIT SHORTAGES COULD AFFECT THE PRICING OF THE COMPANY’S CREDIT FACILITY INCREASE OPTION.**

Tightening of the global credit markets could cause an increase in the pricing or fees related to the Company’s overall credit facility if the Company exercises its \$50 million increase option.

#### **MOST UTILITY SOLUTIONS SEGMENT SALES ARE TO OR FOR THE UTILITY INDUSTRY, KNOWN FOR LONG SALES CYCLES AND UNCERTAINTY, WHICH COULD AFFECT THE TIMING OF REVENUE.**

Most of the Utility Solutions segment’s sales are to or for the utility industry, where sales cycles are long and often unpredictable. Most Aclara sales involve large dollar amounts, and are marked by extended and complex competitive procurements. These factors often cause delays in the timing of sales, and such delays could result in order postponement, reduction in size or cancellation, thereby reducing or delaying the Company’s future revenue.

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### A SIGNIFICANT PORTION OF THE UTILITY SOLUTIONS SEGMENT REVENUES IS GENERATED BY A LIMITED NUMBER OF LARGE CONTRACTS.

A significant portion of the Utility Solutions segment's business is dependent on several large contracts with customers. The largest of these is a contract to sell gas automatic meter reading systems to PG&E for its AMI project over an initial period of approximately five years, which started in November 2005. This contract, which represents a potential high source of revenue, is subject to cancellation or reduction in expected order quantities by PG&E, delays, regulatory actions and the Company's ability to successfully perform the contract. There is no assurance that PG&E will purchase Aclara's systems for all of its gas meters. The loss of revenue which would result from PG&E's selection of other suppliers, cancellations, delays, reductions, regulatory actions or the Company's failure to perform in connection with this contract could have a material adverse effect on the Company's business, results of operations and financial condition as a whole.

### FAILURE OR DELAY IN NEW PRODUCT DEVELOPMENT COULD REDUCE THE COMPANY'S FUTURE SALES.

Much of the Company's business is dependent on the continuous development of new products and technologies to meet the changing needs of the Company's markets on a cost-effective basis. Many of these markets are highly technical from an engineering standpoint, and the relevant technologies are subject to rapid change.

If the Company fails to timely enhance existing products or develop new products, sales opportunities could be lost, which would adversely affect business. In addition, in some existing contracts with customers, the Company has made commitments to develop and deliver new products. If the Company fails to meet these commitments, the default could result in the imposition of contractual penalties including termination. The inability to enhance existing products in a timely manner could make the products less competitive, while the inability to successfully develop new products may limit growth opportunities. Delays in product development may also require greater investment in research and development. Increased costs associated with new product development and product enhancements could adversely affect operating results. The costs of new product development may not be recoverable if demand for the products is not as anticipated.

### A SIGNIFICANT PORTION OF THE COMPANY'S CAPITALIZED SOFTWARE IS SUBJECT TO IMPAIRMENT RISK BASED ON THE ABILITY TO MARKET THE SOFTWARE.

A significant portion of the Company's capitalized software value is contingent on the future sales of TWACS NG software. Failure to generate sufficient sales to recoup costs could result in the impairment of the capitalized software costs. See Item 1, Business-Products-Utility Solutions for a discussion of the status of the Aclara PLS contract with PG&E.

### CERTAIN MANUFACTURING OPERATIONS ARE DEPENDENT ON A SMALL NUMBER OF THIRD-PARTY SUPPLIERS.

A significant part of the Utility Solutions segment's manufacturing operations relies on a small number of third-party manufacturers to supply the segment's products. For example, Aclara has arrangements with four manufacturers which produce and supply substantially all of Aclara's end-products. Two of these suppliers produce these end-products in Mexico. A significant disruption (for example, a strike) in the supply of those products could negatively affect the timely delivery of Aclara's products to customers and future sales. Also, most of Doble's manufacturing operations rely on third-party manufacturers to supply its products. Disruption in the supply of critical components such as integrated circuit components could have an adverse impact on business by, among other things, increasing costs and reducing margins. Comtrak currently relies on a single source for a major portion of its products.

Certain of the Company's other businesses are dependent upon sole source or a limited number of third-party manufacturers of parts and components. Many of these suppliers are small businesses. Since alternative supply sources are limited, this increases the risk of adverse impacts on the Company's production schedules and profits if the Company's suppliers default in fulfilling their price, quality or delivery obligations.

**PRODUCT DEFECTS COULD RESULT IN COSTLY FIXES, LITIGATION AND DAMAGES.**

If there are claims related to defective products (under warranty or otherwise), particularly in a product recall situation, the Company could be faced with significant expenses in replacing or repairing the product. For example, the Aclara meter modules are installed in thousands of residences and other buildings. The replacement/repair costs for such problems could have a material adverse effect on the Company's financial condition. In addition, if a dispute over product claims cannot be settled, arbitration or litigation may result, involving attorneys' fees and the potential of damage awards.

**INCREASES IN RAW MATERIAL PRICES AND DECREASED AVAILABILITY OF RAW MATERIALS COULD ADVERSELY AFFECT THE COMPANY'S BUSINESS.**

The cost of raw materials is a major element of the total cost of many of the Company's products. For example, the Test segment's critical components rely on purchases of raw materials from third parties. Increases in the prices of raw materials (such as steel, copper, nickel, zinc, wood and petrochemical products) could have an adverse impact on business by, among other things, increasing costs and reducing margins.

In addition, the Company's reliance on sole or limited sources of supply of raw materials in each of its segments could adversely affect the business. Weather-created disruptions in supply, in addition to affecting costs, could impact the Company's ability to procure an adequate supply of these raw materials and delay or prevent deliveries of products to customers.

**CHANGES IN TEST STANDARDS COULD ADVERSELY IMPACT TEST SEGMENT SALES.**

A significant portion of the Test segment's business involves sales to technology customers, which results from these customers needing to meet specific international and domestic test standards. If demand for product testing from these customers decreases, the Company's business could be adversely affected. Likewise, if regulatory agencies eliminate or reduce certain domestic or international test standards, the Company's sales could be adversely affected. For example, if it were determined that there is no need to include Wi-Fi technology in mobile phones, there may be no need for certain testing on mobile phones. Also, if a regulatory authority relaxes the test standards for certain electronic devices because they do not interfere with the broadcast spectrum, sales of certain Test products could be reduced.

**ECONOMIC, POLITICAL AND OTHER RISKS OF THE COMPANY'S INTERNATIONAL OPERATIONS COULD ADVERSELY AFFECT BUSINESS.**

In fiscal 2008, approximately 21% of the Company's sales were made to international customers. An economic downturn or an adverse change in the political situation in certain foreign countries in which the Company does business could cause a decline in revenues and adversely affect the Company's financial condition. For example, the Test segment does significant business in Asia. Changes in the Asian political climate or political changes in specific Asian countries could negatively affect the Company's business. Weakness in the European economy could have a significant adverse effect on the Company's European revenues.

The Company's international sales are also subject to other risks inherent in foreign commerce, including currency fluctuations and devaluations, the risk of war and terrorism, differences in foreign laws, uncertainties as to enforcement of contract rights, and difficulties in negotiating and resolving disputes with foreign customers.

**SALES OF GOVERNMENT PRODUCTS DEPEND UPON CONTINUED GOVERNMENT FUNDING.**

During the past three years, from 6% to 8% of the Company's revenues has been generated from sales to the U.S. Government or its contractors. These sales are dependent on continuous government funding of its programs. There could be reductions or terminations of the government funding on programs which are applicable to the Company or its customers. These funding effects could severely affect the Company's sales and profit, and could bring about a major restructuring of Company operations, which could result in an adverse effect on its financial results.

For example, a significant part of VACCO's sales involve major government defense and space programs. Government reduction in spending on these programs could have a significant adverse impact on

Company financial results.

**THE END OF CUSTOMER PRODUCT LIFE CYCLES COULD NEGATIVELY AFFECT FILTRATION SEGMENT RESULTS.**

Many of the Company's filtration products are sold to be components in the customers' end-products. If a customer discontinues a certain end-product line, the ability of the Company to continue to sell those components will be reduced or eliminated. The result could be a significant decrease in Company sales and revenue.

For example, a substantial portion of PTI's revenue is generated from commercial aviation aftermarket sales. As certain aircraft are retired and replaced by newer aircraft, there could be a corresponding decrease in sales and revenue associated with the Company's current products. Such a decrease could adversely affect the Company's operating results. In addition, if the Government cuts back the space program, VACCO's sales of space products would be reduced, and its revenues could be adversely affected.

**ACQUISITIONS OF OTHER COMPANIES CARRY RISK.**

During fiscal 2008, the Company acquired Doble and LDIC. Acquisitions of other companies involve numerous risks, including difficulties in the integration of the operations, technologies and products of the acquired companies, the potential exposure to unanticipated and undisclosed liabilities, the potential that expected benefits or synergies are not realized and that operating costs increase, the potential loss of key personnel, suppliers or customers of acquired businesses and the diversion of management's time and attention from other business concerns. Although management will attempt to evaluate the risks inherent in any particular transaction, no assurances can be made that the Company will properly ascertain all such risks.

**DESPITE ITS EFFORTS, THE COMPANY MAY BE UNABLE TO ADEQUATELY PROTECT ITS INTELLECTUAL PROPERTY.**

Despite the Company's efforts to protect its intellectual property, unauthorized parties or competitors may copy or otherwise obtain and use the Company's products and technology, particularly in foreign countries where the laws may not protect the Company's proprietary rights as fully as in the United States. Current and future actions to enforce the Company's proprietary rights may result in substantial costs and diversion of resources. No assurances can be made that any such actions will be successful. In addition, the Company may not elect to pursue an unauthorized user due to the high costs and uncertainties associated with litigation. The Company may also face exposure to claims by others challenging its intellectual property rights.

**DISPUTES WITH CONTRACTORS COULD ADVERSELY AFFECT THE TEST SEGMENT'S COSTS.**

A major portion of the Test segment's business involves working in conjunction with general contractors to produce the end-products, such as electronic test chambers, secure communication rooms, MRI facilities, etc. If there are performance problems caused by either the Company or a contractor, these often result in cost overruns and may lead to a dispute as to which party is responsible. The resolution of such disputes can result in arbitration or litigation, and could involve significant expense including attorneys' fees. In addition, these disputes may result in reduction in revenue or even a loss to the Company on a particular project.

**THE LOSS OF SPECIALIZED KEY EMPLOYEES COULD AFFECT PERFORMANCE AND REVENUES.**

There is a risk of the Company's losing key employees having engineering and technical expertise to other employers. For example, Doble relies heavily on engineers with significant experience and reputation in the utility industry to furnish expert consulting services and support to customers. Loss of these employees to employers offering greater benefit packages could reduce Doble's ability to provide services and affect revenues negatively.



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### CHANGES IN ENVIRONMENTAL OR REGULATORY REQUIREMENTS COULD INCREASE EXPENSES AND ADVERSELY AFFECT PROFITABILITY.

The Company's operations and properties are subject to U.S. and foreign environmental laws and regulations governing, among other things, the generation, storage, emission, discharge, transportation, treatment and disposal of hazardous materials and the clean up of contaminated properties. Changes in such requirements could increase the cost of compliance. Failure to comply could result in the imposition of significant fines, suspension of production, alteration of product processes, cessation of operations or other actions, which could materially and adversely affect the Company's business, financial condition and results of operations.

### COMPETITION IS BROADLY BASED AND GLOBAL IN SCOPE.

The Company faces competition from a large number of manufacturers and distributors for nearly all of its products. Some of the Company's competitors are larger, more diversified corporations with greater financial, marketing, production and research and development resources. If the Company cannot compete successfully against current or future competitors, it could have a material adverse effect on the Company's business, financial condition and results of operations.

### FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-K regarding future events and the Company's future results that are based on current expectations, estimates, forecasts and projections about the Company's performance and the industries in which the Company operates, adequacy of the Company's credit facilities and future cash flows, estimates of anticipated contract costs and revenues, the timing, amount and success of claims for research credits, the anticipated value of the PG&E contracts, the outcome of current litigation, claims and charges, the anticipated timing and amount of lost deferred tax assets, continued reinvestment of foreign earnings, the impact of SFAS 161 and SFAS 157, the timing, total value and period of performance of contracts awarded to the Company, the accuracy of the Company's estimates utilized in software revenue recognition, the accuracy of the Company's estimates utilized to project costs at completion in the Test segment and Filtration segment, income tax liabilities, the effective tax rate, the timing and results of the IRS audit of the Company's Federal income tax returns for the periods ended September 30, 2003 through September 30, 2006, repayment of debt within the next twelve months, the recognition of costs related to share-based compensation arrangements, future costs relating to environmental matters, share repurchases, investments, sustained performance improvement, performance improvement initiatives, growth opportunities, new product development, the Company's ability to increase shareholder value, acquisitions, and the beliefs and assumptions of Management contained in "Management's Discussion and Analysis" in the 2008 Annual Report, and other statements contained herein which are not strictly historical are considered "forward-looking statements" within the meaning of the safe harbor provisions of the Federal securities laws. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that such statements are only predictions, speak only as of the date of this report, and the Company undertakes no duty to update. 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, those described in this "Item 1A. Risk Factors" and the following: actions by the California Public Utility Commission; PG&E's Board of Directors or PG&E's management impacting PG&E's AMI projects; the timing and content of purchase order releases under the PG&E contracts; and Aclara RF's successful performance of its PG&E contract; termination for convenience of customer contracts; timing and magnitude of future contract awards; weakening of economic conditions in served markets; the success of the Company's competitors; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties; the availability of selected acquisitions; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; labor disputes; changes in laws and regulations including, but not limited to, changes in accounting standards and taxation requirements; costs relating to environmental matters; litigation uncertainty; and the Company's successful execution of internal operating plans.

### Item 1B. Unresolved Staff Comments

None

**Item 2. Properties**

The Company's principal buildings contain approximately 1,108,600 square feet of floor space. Approximately 715,200 square feet are owned by the Company and approximately 393,400 square feet are leased. See Note 7 of the Notes to Consolidated Financial Statements in the 2008 Annual Report, which information is herein incorporated by reference. The principal plants and offices are as follows:

<u>Location</u>	<u>Size (Sq. Ft.)</u>	<u>Sq. Ft. Owned/Leased</u>	<u>Lease Expiration Date</u>	<u>Principal Use (Operating Segment)</u>
Cedar Park, TX	140,000	Owned		Management, Engineering and Manufacturing (Test)
Oxnard, CA	127,400	Owned		Management, Engineering and Manufacturing (Filtration)
South El Monte, CA	100,100	Owned		Management, Engineering and Manufacturing (Filtration)
Durant, OK	100,000	Owned		Manufacturing (Test)
Cleveland, OH	90,000	Leased	1-31-2011 (four 3-year renewal options)	Management, Engineering and Manufacturing (Utility Solutions)
Watertown, MA	88,800	Owned		Management, Engineering and Manufacturing (Utility Solutions)
St. Louis, MO	86,800	Leased	3-31-2013 (one 5-year renewal option)	Management and Engineering (Utility Solutions)
Huntley, IL	85,000	Owned		Management and Manufacturing (Filtration)
Glendale Heights, IL	59,400	Leased	3-31-2010 (three 3-year renewal options)	Management, Engineering and Manufacturing (Test)
Beijing, China	50,600	Leased	4,600 sq. ft. Office 12-14- 2010 46,000 sq. ft. Plant 12-31- 2009	Manufacturing (Test)
Eura, Finland	40,900	Owned		Management, Engineering and Manufacturing (Test)
St. Louis, MO	33,000	Owned		Management and Engineering (Utility Solutions)
Minocqua, WI	30,200	Leased	3-31-2010 (three 3-year renewal options)	Engineering and Manufacturing (Test)

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<u>Location</u>	<u>Size (Sq. Ft.)</u>	<u>Sq. Ft. Owned/Leased</u>	<u>Lease Expiration Date</u>	<u>Principal Use (Operating Segment)</u>
St. Louis, MO	20,500	Leased	8-31-2015 (one 5-year renewal option)	ESCO Headquarters
Wellesley, MA	18,500	Leased	9-30-2012	Management and Engineering (Utility Solutions)
Morrisville, NC	16,700	Leased	3-31-2014 (one 3-year renewal option)	Management (Utility Solutions)
Stevenage, England	12,200	Leased	8-11-2017 (option to terminate in 2012)	Management, Engineering and Manufacturing (Test)
Kesselsdorf, Germany	8,500	Leased	5-31-2012	Management, Engineering and Manufacturing (Utility Solutions)

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**

As a normal incident of the businesses in which the Company is engaged, various claims, charges and litigation are asserted or commenced from time to time against the Company. With respect to claims and litigation asserted or commenced against the Company, it is the opinion of management that final judgments, if any, which might be rendered against the Company are adequately reserved or covered by insurance, and are not likely to have a material adverse effect on its financial condition or results of operation.

### **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 November 25, 2008 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.

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Victor L. Richey, Jr.*	51	Chairman, President and Chief Executive Officer
Gary E. Muenster	48	Executive Vice President and Chief Financial Officer
Alyson S. Barclay	49	Senior Vice President, Secretary and General Counsel

\* Also Chairman of the Executive Committee of the Board of Directors.

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

Since April 2003, Mr. Richey has been Chairman and Chief Executive Officer of ESCO. Since October 2006, he has also been President.

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Mr. Muenster was Vice President and Chief Financial Officer of ESCO from October 2002 until November 2005. From November 2005 until February 2008, he was Senior Vice President and Chief Financial Officer. Since the latter date, he has been Executive Vice President and Chief Financial Officer.

Ms. Barclay was Vice President, Secretary and General Counsel of ESCO from October 1999 until November 2008. Since the latter date, she has been Senior Vice President, Secretary and General Counsel.

## PART II

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The information required by this item is incorporated herein by reference to Notes 10 and 11 of the Notes to Consolidated Financial Statements, "Common Stock Market Price" and "Shareholders' Summary—Capital Stock Information" appearing in the 2008 Annual Report. As of November 13, 2008, there were approximately 2,500 record holders of Common Stock (including Company employees holding shares under the Employee Stock Purchase Plan). 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. See Item 12 for equity compensation plan information.

#### ISSUER PURCHASES OF EQUITY SECURITIES\*:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2008	0	N.A.	0	0
August 1-31, 2008	0	N.A.	0	0
Sep. 1-30, 2008	0	N.A.	0	0
Total	0	N.A.	0	\$30 Million

\* On August 7, 2008, the Board of Directors announced a new common stock repurchase program (the "2008 Program") for a maximum total value of \$30 Million. The 2008 Program will expire September 30, 2009. The pre-existing stock repurchase program covering a maximum of 1,200,000 shares expired on September 30, 2008. There currently is no repurchase program which the Company has determined to terminate prior to the program's expiration, or under which the Company does not intend to make further purchases.

### **Item 6. Selected Financial Data**

The information required by this item is incorporated herein by reference to "Five-Year Financial Summary" and Note 2 of the Notes to Consolidated Financial Statements appearing in the 2008 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 2008 Annual Report.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is incorporated herein by reference to "Market Risk Analysis" and "Quantitative And Qualitative Disclosures About Market Risk" in "Management's Discussion and Analysis" appearing in the 2008 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 21 through 42 and the report thereon of KPMG LLP, an independent registered public accounting firm, appearing on page 45 of the 2008 Annual Report.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2008. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Management's Report on Internal Control Over Financial Reporting and the attestation report thereon of KPMG LLP are incorporated herein by reference to pages 44 and 45, respectively, in the 2008 Annual Report.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Information regarding nominees and directors appearing under "Nominees and Continuing Directors" in the 2009 Proxy Statement is hereby incorporated by reference. Information regarding executive officers is set forth in Part I of this Form 10-K. Information regarding the Audit and Finance Committee and its members appearing under "Board of Directors and Committees" in the 2009 Proxy Statement is hereby incorporated by reference.

Information appearing under "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2009 Proxy Statement is hereby incorporated by reference.

The Company has adopted codes of ethics which apply to its chief executive officer, its chief financial officer and all other senior executives, as well as all Company employees. The following documents are available free of charge through the Company's internet website at [www.escotechnologies.com](http://www.escotechnologies.com) and in print to any person who requests them: Corporate Governance Guidelines; Charters of the Audit and Finance

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Committee, Human Resources and Compensation Committee, and Nominating and Corporate Governance Committee; Code of Business Conduct and Ethics; and Code of Ethics for Senior Financial Officers. Direct your request for printed documents to Director of Investor Relations, ESCO Technologies Inc., 9900A Clayton Road, St. Louis, MO 63124.

### **Item 11. Executive Compensation**

Information appearing under “Board of Directors and Committees,” “Executive Compensation,” “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” in the 2009 Proxy Statement is hereby incorporated by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information regarding beneficial ownership of shares of common stock by nominees and directors, by executive officers, by directors and executive officers as a group and by any known five percent stockholders appearing under “Security Ownership of Directors and Executive Officers” and “Security Ownership of Certain Beneficial Owners” in the 2009 Proxy Statement is hereby incorporated by reference.

#### Equity Compensation Plan Information:

The following table summarizes certain information regarding Common Shares that may be issued by the Company pursuant to its equity compensation plans existing as of September 30, 2008.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)</u> (c)
Equity compensation plans approved by security holders (2)	1,341,429 (3)	\$ 26.25 (4)	1,797,181 (5)(6)
Equity compensation plans not approved by security holders	<u>0</u>	<u>N/A</u>	<u>214,838 (7)</u>
<b>Total</b>	<b>1,341,429</b>	<b>\$ 26.25</b>	<b>2,012,019</b>

(1) Number of Common Shares is subject to adjustment for any future changes in capitalization for stock splits, stock dividends and similar events.

(2) Consists of the Company's 1990, 1994 and 1999 Stock Option Plans, the 2001 Stock Incentive Plan and the 2004 Incentive Compensation Plan. Each of the above-cited Plans has been amended without Stockholder approval in accordance with its terms, as follows: the Company's 1990, 1994 and 1999 Stock Option Plans have been amended to provide for tax withholding, to provide for adjustment upon a special distribution and in certain other respects; the 1994 and 1999 Stock Option Plans have been amended to reflect the change of the Company's name and the elimination of the Company's common stock trust receipts; the 1994 Stock Option Plan was amended to authorize the Human Resources and Compensation Committee (the "Committee"), in its discretion, to: (i) permit an optionee who terminates employment with the approval of the Company to exercise his stock option at any time within three months after termination, but before ten years from the date of grant, and (ii) direct that an option award agreement may permit an optionee who terminates employment on account of retirement on or after age 60 to exercise his stock option up to five years after retirement, but before ten years from the date of grant;

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the 1990, 1994 and 1999 Stock Option Plans and the 2001 Stock Incentive Plan were amended to authorize the Committee to delegate to any employee the power to extend a stock option beyond termination of employment for persons who are not "officers" as defined in Rule 16a-1 under the Exchange Act; the 1994 and 1999 Stock Option Plans and the 2001 Stock Incentive Plan have been amended to authorize the Committee to delegate to the Chief Executive Officer the power to grant stock options to persons who are not such "officers", with the limitation of 10,000 shares per award and 100,000 shares awarded in the aggregate in any fiscal year; the 2001 Stock Incentive Plan and the 2004 Incentive Compensation Plan were amended with respect to Performance Share distributions to: (i) eliminate the participant's option to pay cash for tax withholding and receive all shares due, and (ii) eliminate the participant's option to defer the distribution; the 2004 Incentive Compensation Plan was amended with respect to Performance Share distributions to eliminate the Committee's discretion to determine the percentage of the distribution to be made in shares or to be withheld for tax payments; and the 1999 Stock Option Plan, the 2001 Stock Incentive Plan and the 2004 Incentive Compensation Plan were amended in accordance with Section 409A of the Internal Revenue Code of 1986, as amended, to eliminate the Committee's discretion to grant to stock option holders additional alternative stock appreciation rights covering additional shares, under certain circumstances; and in the case of the 2004 Plan, to restrict the payment of dividend equivalents to participants in restricted stock awards to the time when the shares to which the dividend equivalents apply are delivered to the participant.

- (3) Includes 202,895 Common Shares issuable in connection with the vesting and distribution of outstanding performance-accelerated restricted share awards under the Company's 2001 Stock Incentive Plan.
- (4) Does not include 202,895 Common Shares issuable in connection with the vesting and distribution of outstanding performance-accelerated restricted share awards under the 2001 Stock Incentive Plan, for which there are no exercise prices.
- (5) Comprises 258,601 Common Shares under the 2001 Stock Incentive Plan and 1,538,580 Common Shares under the 2004 Incentive Compensation Plan.
- (6) Does not include shares that may be purchased on the open market pursuant to the Company's Employee Stock Purchase Plan (the "ESPP"). Under the ESPP, participants may elect to have up to 10% of their current salary or wages withheld and contributed to one or more independent trustees for the purchase of Common Shares. At the discretion of an officer of the Company, the Company or a domestic subsidiary or division may contribute cash in an amount not to exceed 20% of the amounts contributed by participants. The total number of Common Shares purchased with the Company's matching contributions, however, may not exceed 183,446. As of September 30, 2008, 47,446 shares had been purchased with the Company's matching funds.
- (7) Represents Common Shares issuable pursuant to the Compensation Plan for Non-Employee Directors (the "Compensation Plan"), which provides for each director to be paid (in addition to other fees) an annual retainer fee payable partially in cash and partially in Common Shares. Periodically, the Human Resources and Compensation Committee of the Board of Directors determines the amount of the retainer fee and the allocation of the fee between cash and Common Shares. The maximum number of Common Shares available for distribution under the Compensation Plan is 400,000 shares. The stock portion of the retainer fee is distributable in quarterly installments. Directors may elect to defer receipt of all of their cash compensation and/or all of the stock portion of the retainer fee. The deferred amounts are credited to the director's deferred compensation account in stock equivalents. Deferred amounts are distributed in Common Shares or cash at such future dates as specified by the director unless distribution is accelerated in certain circumstances, including a change in control of the Company. The stock portion which has been deferred may only be distributed in Common Shares.

**Item 13. Certain Relationships and Related Transactions and Director Independence**

Information regarding the Company's directors, nominees for directors and members of the committees of the board of directors, and their status of independence appearing under "Board of Directors and Committees" in the 2009 Proxy Statement is hereby incorporated by reference.

There was no transaction since the beginning of the Company's last fiscal year, or any currently proposed transaction, in which the Company was or is to be a participant and the amount involved exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest.

The Company has implemented a written policy to ensure that all "Interested Transactions" with "Related Parties" will be at arm's length and on terms generally available to an unaffiliated third-party under the same or similar circumstances. Interested Transactions are any Company transactions in which any Related Party has or will have a direct or indirect interest. Related Parties are executive officers, directors, director nominees and persons owning more than 5% of Company common stock, or any immediate family member of such parties. The policy contains procedures requiring Related Parties to notify the Company of potential Interested Transactions and for the Nominating and Corporate Governance Committee (Committee) to review and approve or disapprove of such transaction. The Committee will consider whether the Interested Transaction with a Related Party is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances. If advance Committee approval is not feasible or is not obtained, the policy requires submission to the Committee after the fact, and the Committee is empowered to approve, ratify, amend, rescind or terminate the transaction. In such event, the Committee may also request the General Counsel to evaluate the Company's controls and procedures to ascertain whether any changes to the policy are recommended.

**Item 14. Principal Accounting Fees and Services**

Information regarding the Company's independent auditors, their fees and services, and the Company's Audit and Finance Committee's pre-approval policies and procedures regarding such fees and services appearing under "Independent Public Accountants" in the 2009 Proxy Statement is hereby incorporated by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

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

1. The Consolidated Financial Statements of the Company on pages 21 through 42 and the Report of Independent Registered Public Accounting Firm thereon of KPMG LLP appearing on page 45 of the 2008 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.



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### 3. Exhibits:

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
3.1	Restated Articles of Incorporation	Incorporated by Reference, Exhibit 3(a)[1]
3.2	Amended Certificate of Designation, Preferences and Rights of Series A Participating Cumulative Preferred Stock of the Registrant	Incorporated by Reference, Exhibit 4(e)[2]
3.3	Articles of Merger effective July 10, 2000	Incorporated by Reference, Exhibit 3(c)[3]
3.4	Bylaws, as amended and restated	Incorporated by Reference, Exhibit 3.4[4]
3.5	Amendment to Bylaws effective November 9, 2007	Incorporated by Reference, Exhibit 3.1[23]
4.1	Specimen Common Stock Certificate	Incorporated by Reference, Exhibit 4(a)[3]
4.2	Specimen Rights Certificate	Incorporated by Reference, Exhibit B to Exhibit 4.1[5]
4.3	Rights Agreement dated as of September 24, 1990 (as amended and restated as of February 3, 2000) between the Registrant and Registrar and Transfer Company, as successor Rights Agent	Incorporated by Reference, Exhibit 4.1[5]
4.4	Credit Agreement dated as of October 6, 2004, among the Registrant, Wells Fargo Bank, N.A., as agent, and the lenders listed therein	Incorporated by Reference, Exhibit 4.4[6]
4.5	Consent and waiver to Credit Agreement (listed as 4.4, above) dated as of January 20, 2006	Incorporated by Reference, Exhibit 4.1[21]
10.1	Form of Indemnification Agreement with each of ESCO's directors	Incorporated by Reference, Exhibit 10(k)[7]
10.2	Supplemental Executive Retirement Plan as amended and restated as of August 2, 1993*	Incorporated by Reference, Exhibit 10(n)[8]
10.3	Second Amendment to Supplemental Executive Retirement Plan effective May 1, 2001*	Incorporated by Reference, Exhibit 10.4[9]

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<u>Exhibit Number</u>	<u>Description</u>	<u>Filed Herewith or Incorporated by Reference to Document Indicated By Footnote</u>
10.4	Directors' Extended Compensation Plan*	Incorporated by Reference, Exhibit 10(o)[8]
10.5	First Amendment to Directors' Extended Compensation Plan effective January 1, 2000*	Incorporated by Reference, Exhibit 10.11[10]
10.6	Second Amendment to Directors' Extended Compensation Plan effective April 1, 2001*	Incorporated by Reference, Exhibit 10.7[9]
10.7	1994 Stock Option Plan (as amended and restated effective October 16, 2000)*	Incorporated by Reference, Exhibit 10.1[11]
10.8	Amendment to 1994 Stock Option Plan effective July 18, 2002*	Incorporated by Reference, Exhibit 10(b)[12]
10.9	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10.15[10]
10.10	Severance Plan adopted as of August 10, 1995 (as restated February 5, 2002)*	Incorporated by Reference, Exhibit 10[13]
10.11	Amendment to 1994 Stock Option Plan effective August 7, 2003*	Incorporated by Reference, Exhibit 10.12[4]
10.12	1999 Stock Option Plan (as amended and restated effective October 16, 2000)*	Incorporated by Reference, Exhibit 10.2[11]
10.13	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10.3[11]
10.14	Amendment to 1999 Stock Option Plan effective August 7, 2003*	Incorporated by Reference, Exhibit 10.15[4]
10.15	Employment Agreement with Executive Officer*[14]	Incorporated by Reference, Exhibit 10(bb)[1]
10.16	Amendment to Employment Agreement with Executive Officer*[15]	Incorporated by Reference, Exhibit 10.18[9]
10.17	Executive Stock Purchase Plan*	Incorporated by Reference, Exhibit 10.24[10]
10.18	Compensation Plan For Non-Employee Directors*	Incorporated by Reference, Exhibit 10.22[9]
10.19	2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit B[16]
10.20	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10.24[17]
10.21	Form of Non-qualified Stock Option Agreement*	Incorporated by Reference, Exhibit 10.25[17]
10.22	Form of Notice of Award—Performance— Accelerated Restricted Stock *	Incorporated by Reference, Exhibit 10.26[17]

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<u>Exhibit Number</u>	<u>Description</u>	<u>Filed Herewith or Incorporated by Reference to Document Indicated By Footnote</u>
10.23	Form of Supplemental Executive Retirement Plan Agreement *	Incorporated by Reference, Exhibit 10.28[17]
10.24	Amendment to 2001 Stock Incentive Plan effective August 7, 2003*	Incorporated by Reference, Exhibit 10.29[4]
10.25	Sixth Amendment and Restatement of Employee Stock Purchase Plan effective as of October 15, 2003*	Incorporated by Reference, Appendix C[18]
10.26	Second Amendment to Employment Agreement with V.L. Richey, Jr. *	Incorporated by Reference, Exhibit 10.1[19]
10.27	Second Amendment to Employment Agreement with G.E. Muenster (identical document with A.S. Barclay)*	Incorporated by Reference, Exhibit 10.2[19]
10.28	Notice of Award – restricted stock award to V.L. Richey, Jr. (identical documents except for number of shares awarded for: C.J. Kretschmer — 4,750 shares; G.E. Muenster — 2,400 shares; A.S. Barclay — 1,800 shares)*	Incorporated by Reference, Exhibit 10.3[19]
10.29	2004 Incentive Compensation Plan*	Incorporated by Reference, Appendix B[18]
10.30	Summary of Non-Employee Directors' Compensation*	Incorporated by Reference, Exhibit 10.1[20]
10.31	Performance Compensation Plan Amended and Restated as of November 25, 2002*	Incorporated by Reference, Exhibit 10.2[20]
10.32	2005 Performance Measures and Evaluation Criteria under Performance Compensation Plan*	Incorporated by Reference, Exhibit 10.3[20]
10.33	Awards to Executive Officers Not Reported on Form 8-K, October 4, 2004*	Incorporated by Reference, Exhibit 10.4[20]
10.34	Form of Notice of Award—Performance-Accelerated Restricted Stock under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.5[20]
10.35	Form of Incentive Stock Option Agreement under 2004 Incentive Compensation Plan*	Incorporated by Reference, Exhibit 10.6[20]
10.36	Form of Nonqualified Stock Option Agreement under 2004 Incentive Compensation Plan*	Incorporated by Reference, Exhibit 10.7[20]
10.37	Form of Incentive Stock Option Agreement under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.8[20]
10.38	Form of Nonqualified Stock Option Agreement under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.9[20]
10.39	Second Amendment to 2001 Stock Incentive Plan effective August 3, 2006*	Incorporated by Reference, Exhibit 10.39[22]

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<u>Exhibit Number</u>	<u>Description</u>	<u>Filed Herewith or Incorporated by Reference to Document Indicated By Footnote</u>
10.40	First Amendment to 2004 Incentive Compensation Plan effective August 3, 2006*	Incorporated by Reference, Exhibit 10.40[22]
10.41	Employment Agreement with C.J. Kretschmer effective October 1, 2006*	Incorporated by Reference, Exhibit 10.41[22]
10.42	Form of Exhibits (“Non-Compete” and “Change of Control”) to Option Agreements listed as 10.35 and 10.36, above*	Incorporated by Reference, Exhibit 10.42[24]
10.43	Third Amendment to Directors’ Extended Compensation Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.43[24]
10.44	Second Amendment to 2004 Incentive Compensation Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.44[24]
10.45	Third Amendment to 2001 Stock Incentive Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.45[24]
10.46	First Amendment to Incentive Compensation Plan for Executive Officers effective October 3, 2007*	Incorporated by Reference, Exhibit 10.46[24]
10.47	Amendment to 1999 Stock Option Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.47[24]
10.48	Amendment to Severance Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.48[24]
10.49	Amendment to Performance Compensation Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.49[24]
10.50	Amendment to Compensation Plan for Non-Employee Directors effective October 3, 2007*	Incorporated by Reference, Exhibit 10.50[24]
10.51	Form of Notice of Award (2009) – Performance Accelerated Restricted Stock under 2001 Stock Incentive Plan*	
10.52	Third Amendment to Employment Agreement with V.L. Richey, Jr. * [25]	Incorporated by Reference, Exhibit 10.1[26]
10.53	Fourth Amendment to Employment Agreement with G.E. Muenster*	Incorporated by Reference, Exhibit 10.1[27]
10.54	Third Amendment to 2004 Incentive Compensation Plan effective October 1, 2007	Incorporated by Reference, Appendix A[28]
10.55	Fourth Amendment to 2001 Stock Incentive Plan effective October 1, 2007	Incorporated by Reference, Appendix B[28]
10.56	Amendment to 1999 Stock Option Plan effective October 1, 2007	Incorporated by Reference, Appendix C[28]

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Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2008: <ul style="list-style-type: none"><li>• Management’s Discussion and Analysis (pgs. 10-20)</li><li>• Consolidated Financial Statements (pgs. 21-42)</li><li>• Management’s Report on Internal Control over Financial Reporting (p. 44)</li><li>• Report of Independent Registered Public Accounting Firm (p.45)</li><li>• Five-year Financial Summary (p. 46)</li><li>• Common Stock Market Price (p. 46)</li><li>• Shareholders’ Summary—Capital Stock Information (p. 48)</li></ul>	
21	Subsidiaries of ESCO	
23	Consent of Independent Registered Public Accounting Firm	
31.1	Certification of Chief Executive Officer	
31.2	Certification of Chief Financial Officer	
32	Certification of Chief Executive Officer and Chief Financial Officer	

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

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

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

[4] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2003, at the Exhibit indicated.

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

[6] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2004, at the Exhibit indicated.

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

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

[9] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2001, at the Exhibit indicated.

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

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- [11] Incorporated by reference to Form 10-Q for the fiscal quarter ended December 31, 2000, at the Exhibit indicated.
- [12] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2002, at the Exhibit indicated.
- [13] Incorporated by reference to Form 10-Q for the fiscal quarter ended March 31, 2002, at the Exhibit indicated.
- [14] Identical Employment Agreements between ESCO and executive officers A.S. Barclay, G.E. Muenster and V.L. Richey, Jr., except that in the cases of Ms. Barclay and Mr. Muenster the minimum annual salary is \$94,000 and \$108,000, respectively.
- [15] Identical Amendments to Employment Agreements between ESCO and executive officers A.S. Barclay, G.E. Muenster and V.L. Richey, Jr.
- [16] Incorporated by reference to Notice of Annual Meeting of the Stockholders and Proxy Statement dated December 11, 2000, at the Exhibit indicated.
- [17] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2002, at the Exhibit indicated.
- [18] Incorporated by reference to Notice of Annual Meeting of the Stockholders and Proxy Statement dated December 29, 2003, at the Appendix indicated.
- [19] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2004, at the Exhibit indicated.
- [20] Incorporated by reference to Form 10-Q for the fiscal quarter ended December 31, 2004, at the Exhibit indicated.
- [21] Incorporated by reference to Current Report on Form 8-K dated February 2, 2006, at the Exhibit indicated.
- [22] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2006, at the Exhibit indicated.
- [23] Incorporated by reference to Current Report on Form 8-K dated November 12, 2007, at the Exhibit indicated.
- [24] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at the Exhibit indicated.
- [25] Identical Amendments to Employment Agreements between ESCO and executive officers G.E. Muenster and A.S. Barclay, except that (i) the termination amounts payable under Paragraph 9.a(1) are equal to base salary for 12 months, and (ii) under Paragraph 9.a(1) (B), such termination amounts may be paid in biweekly installments equal to 1/26<sup>th</sup> of such amounts.
- [26] Incorporated by reference to Current Report on Form 8-K dated December 31, 2007, at the Exhibit indicated.
- [27] Incorporated by reference to Current Report on Form 8-K dated February 6, 2008, at the Exhibit indicated.
- [28] Incorporated by reference to Notice of Annual Meeting of the Stockholders and Proxy Statement dated December 20, 2007, at the Appendix indicated.

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- \* Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(c) of this Part IV.
- (b) Exhibits: Reference is made to the list of exhibits in this Part IV, Item 15(a)3 above.
- (c) Financial Statement Schedules: Reference is made to Part IV, Item 15(a)2 above.

**SIGNATURES**

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

ESCO TECHNOLOGIES INC.

Date: November 26, 2008

By /s/ V.L. Richey, Jr.  
V.L. Richey, Jr.  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below effective November 26, 2008, by the following persons on behalf of the registrant and in the capacities indicated.

<u>SIGNATURE</u>	<u>TITLE</u>
<u>/s/ V.L. Richey, Jr.</u> V.L. Richey, Jr.	Chairman, President, Chief Executive Officer and Director
<u>/s/ G.E. Muenster</u> G.E. Muenster	Executive Vice President and Chief Financial Officer, Principal Accounting Officer
<u>/s/ J.M. McConnell</u> J.M. McConnell	Director
<u>/s/ L.W. Solley</u> L.W. Solley	Director
<u>/s/ J.M. Stolze</u> J.M. Stolze	Director
<u>/s/ D.C. Trauscht</u> D.C. Trauscht	Director
<u>/s/ J.D. Woods</u> J.D. Woods	Director



INDEX TO EXHIBITS

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

<u>Exhibit No.</u>	<u>Exhibit</u>
10.51	Form of Notice of Award (2009) – Performance Accelerated Restricted Stock under 2001 Stock Incentive Plan
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2008: <ul style="list-style-type: none"><li>• Management's Discussion and Analysis (pgs. 10-20)</li><li>• Consolidated Financial Statements (pgs. 21-42)</li><li>• Management's Report on Internal Control over Financial Reporting (p.44)</li><li>• Report of Independent Registered Public Accounting Firm (p.45)</li><li>• Five-year Financial Summary (p. 46)</li><li>• Common Stock Market Price (p. 46)</li><li>• Shareholders' Summary—Capital Stock Information (p. 48)</li></ul>
21	Subsidiaries of ESCO
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32	Certification of Chief Executive Officer and Chief Financial Officer

See Item 15(a)3 for a list of exhibits incorporated by reference.

**NOTICE OF AWARD****To:****From:** Human Resources and Compensation Committee of the Board of Directors ("Committee")**Subject:** ESCO Technologies Inc. 2001 Stock Incentive Plan ("Plan") — 2009 Award

**1. Award.** The Committee has awarded to you \_\_\_\_\_ shares of Performance-Accelerated Restricted Stock under the terms of the Plan ("Award") which entitles you to receive \_\_\_\_\_ shares of Common Stock of the Company upon satisfaction of the terms hereinafter set forth. The Award is subject to all of the terms of the Plan, a copy of which has been delivered to you.

**2. Terms.** The following are the terms of the Award:

(a) Notwithstanding (b), below if, during the Period of the Award, the Average Value Per Share of Company Stock reaches the amount set forth in column (A), a percentage of the Award will be accelerated equal to the amount set forth under column (B) subject to the limitations set forth in (c) and provided you comply with the terms of the remainder of this Notice of Award.

A If the Average Value Per Share of Company Stock reaches:	B The Cumulative Percent of Award Accelerated shall be:
\$51.75 or more	100%
\$48.40	50%
\$45.00	0%

(b) If you are still employed by the Company or a subsidiary of the Company on September 30, 2013 and have been continuously so employed since the date hereof, you will earn 100% of the portion of the Award not yet accelerated provided you comply with the requirements of paragraph 3.

(c) The following additional terms will apply to the Award:

(i) No portion of this Award may be accelerated prior to October 1, 2010. One hundred percent (100%) of the total Award may be accelerated by the end of the Fiscal Year ending September 30, 2013.

(ii) Once a portion of the Award is accelerated under subparagraph (a), you must remain employed with the Company or a subsidiary of the Company until the March 31st

following the end of the Fiscal Year in which that portion of the Award is accelerated. If you terminate employment (voluntarily or involuntarily) prior to such time, you will forfeit that portion of the Award. Provided, however, that if your employment is terminated on account of death, or total and permanent disability the foregoing employment requirement shall not apply.

(iii) If there is a Change of Control (as defined in the Plan) and you are employed by the Company on the date of the Change of Control, the employment requirement of subparagraph (ii) shall cease to apply to the portion of the Award which is accelerated or earned and the number of shares representing that portion of the Award which is accelerated or earned as of the date of the Change of Control shall be distributed to you. In addition, the portion of the Award which is not yet accelerated or earned shall be determined and distributed to you at the end of the Fiscal Year in which the Change of Control occurred provided you are still employed on such date, in lieu of all other provisions of this Award. If you are not employed by the Company as of the end of the foregoing Fiscal Year, no such distribution will be made; provided, however, that if you are involuntarily terminated for reasons other than Cause or if you terminate for Good Reason the remaining shares not yet accelerated or earned shall be distributed in full upon such termination of employment.

(a) Notwithstanding the foregoing provisions of this subparagraph (iii), in the event a certified public accounting firm designated by the Committee (the "Accounting Firm") determines that any payment (whether paid or payable pursuant to the terms of this Award or otherwise and each such payment hereinafter defined as a "Payment" and all Payments in the aggregate hereinafter defined as the "Aggregate Payment"), would subject you to tax under Section 4999 of the Internal Revenue Code of 1986 ("Code") then such Accounting Firm shall determine whether some amount of payments would meet the definition of a "Reduced Amount". If the Accounting Firm determines that there is a Reduced Amount, payments shall be reduced so that the Aggregate Payments shall equal such Reduced Amount. For purposes of this subparagraph, the "Reduced Amount" shall be the largest Aggregate Payment which (a) is less than the sum of all Payments and (b) results in aggregate Net After Tax Receipts which are equal to or greater than the Net After Tax Receipts which would result if Payments were made without regard to this subsection (e). "Net After Tax Receipt" means the Present Value (defined under Section 280G(d)(4) of the Code) of a Payment net of all taxes imposed on you under Section 1 and 4999 of the Code by applying the highest marginal rate under Section 1 of the Code.

(b) As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination of the Accounting Firm hereunder, it is possible that Payments will be made by the Company which should not have been made (the "Overpayments") or that additional Payments which the Company has not made could have been made (the "Underpayments"), in each case consistent with the calculations of the Accounting Firm. In the event that the Accounting Firm, based either upon (A) the assertion of a deficiency by the Internal Revenue Service against the Company or you which the Accounting Firm believes has a high probability of success or (B) controlling precedent or other substantial authority, determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to you which you shall repay to the Company together with interest at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code; provided, however, that no amount shall be payable by you to the Company if and to the extent such payment would not reduce the amount which is subject to taxation under Section 1 and Section 4999 of the Code or if the period of limitations for assessment of tax has expired. In the

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event that the Accounting Firm, based upon controlling precedent or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to you together with interest at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

**3. Share Ownership Requirements.** You are expected to own shares of Common Stock with a fair market value equal to a multiple of your total cash compensation (the "Share Ownership Requirement"). If you do not currently meet your Share Ownership Requirement, you must retain 50% of any Performance-Accelerated Restricted Stock Award distribution which you receive under Paragraph 2(a), above until the Share Ownership Requirement is satisfied. Thereafter you must maintain ownership of shares of Common Stock so that the Share Ownership Requirement remains satisfied. The satisfaction of the requirements of this Paragraph 3 will be reviewed periodically as determined by the Committee.

**4. Definitions.** For purposes of the Award, the following terms shall have the following meanings:

(a) "Average Value Per Share" shall mean the average for any consecutive 30 day trading period in which Company Stock is traded of the daily closing prices of Company Stock on the New York Stock Exchange.

(b) "Cause" shall mean:

(i) The willful and continued failure to substantially perform your duties with the Company or one of its subsidiaries (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for such performance is delivered to you by ESCO's Board of Directors or their delegate which specifically identifies the manner in which such ESCO's Board of Directors or their delegate believes that you have not substantially performed your duties; or

(ii) The willful engaging in (A) illegal conduct (other than minor traffic offenses), or (B) conduct which is in breach of your fiduciary duty to the Company or one of its subsidiaries and which is demonstrably injurious to the Company or one of its subsidiaries, any of their reputations, or any of their business prospects. For purposes of this subparagraph (ii) and subparagraph (i) above, no act or failure to act on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company or one of its subsidiaries. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company or one of its subsidiaries;

The cessation of your employment shall not be deemed to be for "Cause" unless and until there shall have been delivered to you a written notice that in the Board of Directors' or their delegate's opinion you are guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) "Company Stock" shall mean common stock of the Company.

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(d) "Fiscal Year" shall mean the fiscal year of the Company which, as of the date hereof, is the twelve month period commencing October 1 and ending September 30.

(e) "Good Reason" shall mean:

(i) Requiring you to be based at any office or location more than 50 miles from your office or location as of the date of the Change of Control;

(ii) The assignment to you of any duties inconsistent in any respect with your position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as of the date of the Change of Control or in conjunction with a Change in Control any action by the Company or any of its subsidiaries which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an action taken by the Company or one of its subsidiaries, to which you object in writing by notice to the Company within 10 business days after you receive actual notice of such action, which is remedied by the Company or one of its subsidiaries promptly but in any event no later than 5 business days after you provided such notice, or

(iii) The reduction in your total compensation and benefits below the level in effect as of the date of the Change of Control.

(f) "Period of the Award" means the period commencing October 1, 2010 and ending on September 30, 2013.

**5. Parallel Incentive.** The Committee may, but is not obligated to, authorize a payment of a portion of the Award based upon its discretionary evaluation of the Company's financial performance during the Period of the Award even if the foregoing objectives are not fully met. Examples of performance measures the Committee may consider include, but are not limited to, cash flow, earnings, sales and margins.

**6. Medium of Payment.** The Committee shall direct that sufficient shares of Common Stock of the Company shall be withheld from any distribution hereunder to satisfy the Company's tax withholding requirements in respect of such distribution.

**7. Restrictions.** You agree that for the period ending two (2) years after the expiration of the Period of the Award, you will not, as an individual or as a partner, employee, agent, advisor, consultant or in any other capacity of or to any person, firm, corporation or other entity, directly or indirectly, other than as a 2% or less shareholder of a publicly traded corporation, do any of the following:

(a) carry on any business or become involved in any business activity, which is (i) competitive with the business of the Company (or a subsidiary or joint venture of the Company), as presently conducted and as said business may evolve in the ordinary course, and (ii) a business or business activity in which you were engaged in the course of your employment with the Company (or a subsidiary or joint venture of the Company);

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(b) hire, or assist anyone else to hire, any employee of the Company (or any subsidiary or joint venture of the Company), or seek to persuade, or assist anyone else to seek to persuade, any employee of the Company (or any subsidiary or joint venture of the Company), to discontinue employment with the Company (or any subsidiary or joint venture of the Company);

(c) induce or attempt to induce, or assist anyone else to induce or attempt to induce, any customer of the Company (or any subsidiary or joint venture of the Company), to discontinue its business with the Company (or with any subsidiary or joint venture of the Company), or disclose to anyone else any confidential information relating to the identities, preferences, and/or requirements of any such customer; or

(d) engage in any other conduct inimical, contrary or harmful to the interests of the Company (or any subsidiary or joint venture of the Company), including, but not limited to, conduct related to your employment, or violation of any Company policy.

In the event of a breach or threatened breach of this Paragraph 7 the Company shall be entitled, in addition to any other legal or equitable remedies it may have, to temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach. You hereby expressly acknowledge that the harm which might result as a result of any noncompliance by you would be largely irreparable, and you agree that if there is a question as to the enforceability of any of the provisions of this Agreement, you will abide by the Agreement until after the question has been resolved by a final judgment of a court of competent jurisdiction.

**8. Recoupment.** In the event of any conduct on your part which is knowingly fraudulent, deliberately dishonest or constitutes willful misconduct and such conduct causes financial harm to the Company (as determined by the Company), you shall forfeit this Award; and in the event payment has already been made under this Award, you shall transfer to the Company, within 30 days after notice and demand by the Company, (a) any amount of cash paid to you under this Award, (b) any shares of stock transferred to you under this Award, and (c) the profit on any sales of such shares.

**9. Choice of Law.** This Agreement shall be construed and administered in accordance with the laws of the State of Missouri without regard to the principles of conflicts of law which might otherwise apply. Any litigation concerning any aspect of this Agreement shall be conducted in the State or Federal Courts in the State of Missouri.

**10. Amendment.** The Award may be amended by written consent between the Company and you.

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Executed this \_\_\_ day of \_\_\_\_\_, 20 \_\_\_ .

**ESCO TECHNOLOGIES INC.**

By: \_\_\_\_\_  
Vice President

ATTEST: \_\_\_\_\_  
Secretary

**AGREED TO AND ACCEPTED:**

\_\_\_\_\_  
Participant

## Management's Discussion and Analysis

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto. The years 2008, 2007 and 2006 represent the fiscal years ended September 30, 2008, 2007 and 2006, respectively, and are used throughout the document.

### Introduction

ESCO Technologies Inc. and its wholly owned subsidiaries (ESCO, the Company) are organized into three reporting segments: Utility Solutions Group (USG), RF Shielding and Test (Test), and Filtration/Fluid Flow (Filtration). In conjunction with the acquisition of Doble Engineering Company in November 2007, the Company changed the name of the Communications segment to the Utility Solutions Group segment. The renaming of this segment more accurately describes the segment's operating activities and reflects the strategic alignment of the respective operating entities to focus on a single goal of satisfying the expanding Advanced Metering Infrastructure (AMI), Smart Grid, and other operational requirements of electric, gas and water utilities worldwide. The segment name change was done along with the Company's strategic integration and rebranding of its three AMI related technologies under the unified brand name Aclara™, and renaming the AMI businesses as follows: Distribution Control Systems, Inc. was renamed Aclara Power-Line Systems Inc.; Hexagram, Inc. was renamed Aclara RF Systems Inc.; and Nexus Energy Software, Inc. was renamed Aclara Software Inc.

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

- 4 USG: Aclara Power-Line Systems Inc. (Aclara PLS), Aclara RF Systems Inc. (Aclara RF), Aclara Software Inc., Doble Engineering Company (Doble), and Comtrak Technologies, L.L.C. (Comtrak),
- 4 Test: EMC Group companies consisting primarily of ETS-Lindgren L.P. (ETS) and Lindgren R.F. Enclosures, Inc. (Lindgren), and
- 4 Filtration: PTI Technologies Inc. (PTI), VACCO Industries (VACCO), and TekPackaging L.L.C. (TekPack).

The USG segment is a proven supplier of special purpose fixed network communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. Aclara's STAR® Network system and TWACS® technology provide advanced radio-frequency (RF) and power-line (PLS) based fixed-network technologies proven to meet the wide-ranging data communications requirements of utilities worldwide. Aclara Software applications add value across the utility enterprise, addressing meter and energy data management, distribution planning and operations, customer service and revenue management. Doble provides high-end, diagnostic test solutions for the electric power delivery industry and is a leading supplier of partial discharge testing instruments used to assess the integrity of high voltage power delivery equipment. Comtrak's SecurVision® product line provides digital video surveillance and security functions for large commercial enterprises and alarm monitoring companies.

The Test segment is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy.

The Filtration segment designs and manufactures specialty filtration products including hydraulic filter elements used in commercial aerospace applications, unique filter mechanisms used in micro propulsion devices for satellites and custom designed filters for manned and unmanned aircraft.

On November 25, 2007, the Company completed the sale of the filtration portion of Filtertek Inc. (Filtertek); accordingly, the Filtertek businesses are reflected as discontinued operations in the financial statements and related notes for all periods presented.

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

### Highlights of 2008 Continuing Operations

- 4 Sales, net earnings and diluted earnings per share were \$623.8 million, \$47.4 million and \$1.80 per share, respectively.
- 4 Net cash provided by operating activities was \$81.0 million.
- 4 At September 30, 2008, cash on hand was \$28.7 million.
- 4 On November 30, 2007, the Company acquired Doble and on July 31, 2008, the Company acquired LDIC GmbH and LDIC AG (collectively "LDIC").
- 4 In 2008, the Company received \$111.8 million in orders and recorded \$110.2 million in sales from Pacific Gas & Electric Company (PG&E) related to its electric and gas AMI deployment.
- 4 Aclara RF received an order for a fixed network water AMR project in New York City, with a value up to \$68.3 million over a three-year deployment period.
- 4 Aclara PLS's TWACS® AMI product was selected by Idaho Power Company for its entire electric service territory. The Company expects orders up to \$25 million related to this three-year deployment beginning in early fiscal 2009.
- 4 Aclara PLS received \$22.4 million in orders from the Puerto Rico Electric Power Authority (PREPA).



## Management's Discussion and Analysis

### Results of Continuing Operations

#### NET SALES

(Dollars in millions)	Fiscal year ended			Change	Change
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
USG	\$ 362.9	197.6	156.2	83.7%	26.5%
Test	144.8	141.5	128.6	2.3%	10.0%
Filtration	116.1	105.6	97.6	9.9%	8.2%
Total	\$ 623.8	444.7	382.4	40.3%	16.3%

#### USG

The 83.7% or \$165.3 million increase in net sales in 2008 as compared to the prior year was due to: the acquisition of Doble with sales of \$74.3 million; a \$55.4 million increase in sales from Aclara RF primarily due to higher gas and electric AMI deliveries at PG&E; a \$31.7 million increase in sales from Aclara PLS; and a \$3.0 million increase in sales from Comtrak. The Company's total sales to PG&E were \$110.2 million in 2008 which represented approximately 18% of the Company's consolidated net sales.

The \$31.7 million increase in Aclara PLS's net sales in 2008 compared to 2007 was mainly due to: a \$34.0 million increase in sales to PG&E for the electric AMI deployment (due to the recognition of previously deferred revenue from the hardware, program management and software provided to PG&E), a \$16.8 million increase in sales to the Puerto Rico Electric Power Authority (PREPA), partially offset by a \$18.4 million decrease in sales to other investor owned utilities (IOU) customers, such as Duke Energy and Oncor Electric.

The 26.5% or \$41.4 million increase in net sales in 2007 as compared to the prior year was due to: an increase of \$30.5 million at Aclara RF; an increase of \$6.5 million at Aclara PLS; an increase in sales of \$4.6 million at Aclara Software.

The \$30.5 million increase in sales of Aclara RF's AMI products in 2007 as compared to 2006 was due to: a \$21.6 million increase in sales to PG&E related to their gas deployment; and a \$3.1 million increase in sales from the advanced metering project in Kansas City, Missouri. In addition, Aclara RF's 2007 results represented twelve months of sales compared to eight months in 2006.

#### Test

The net sales increase of \$3.3 million or 2.3% in 2008 as compared to the prior year was mainly due to: a \$5.2 million increase in net sales from the segment's European operations; a \$2.7 million increase in net sales from the segment's Asian operations; partially offset by a \$4.6 million decrease in net sales from the segment's U.S. operations due to the timing of test chamber sales and sales of components.

The net sales increase of \$12.9 million or 10.0% in 2007 as compared to the prior year was mainly due to: a \$10.6 million increase in net sales driven by project milestones on a large international aircraft chamber and completion of other test chambers; a \$3.2 million increase in net sales from the segment's Asian operations; partially offset by a \$0.9 million decrease in net sales from the segment's European operations.

#### Filtration

Net sales in 2008 increased \$10.5 million or 9.9% compared to the prior year primarily due to a \$5.5 million increase in commercial aerospace shipments at PTI and a \$3.5 million increase in net sales at VACCO driven by higher space product shipments.

Net sales in 2007 increased \$8.0 million or 8.2% compared to 2006 primarily as a result of higher commercial aerospace shipments at PTI of \$6.4 million; a sales increase of \$4.9 million at VACCO driven by higher defense spares and T-700 shipments; partially offset by a \$3.1 million net sales decrease at TekPack driven by lower commercial product shipments.

#### PACIFIC GAS & ELECTRIC

##### Aclara PLS

In November 2005, Aclara PLS (then named Distribution Control Systems, Inc.) entered into a contract (the "Aclara PLS Contract") to provide equipment, software and services to Pacific Gas & Electric (PG&E) in support of the electric portion of PG&E's AMI project. During the third quarter of 2007, PG&E announced its plans to evaluate alternative electric AMI technologies for the electric portion of its service territory currently included in the Aclara PLS Contract.

In light of PG&E's announcement and its subsequent purchase of other technologies, including products from Aclara RF described below, for the electric portion of its service territory, Aclara PLS and PG&E entered into an amendment to the Aclara PLS Contract effective September 30, 2008 (the "Aclara PLS Amendment"). Execution of the Aclara PLS Amendment allowed the Company to recognize approximately \$11.0 million of revenue and \$6.5 million of profit during the fourth quarter of 2008. This revenue consisted of deferred program management services, software license fees and compensation for a shortfall in equipment purchases by PG&E, as all remaining undelivered elements are elements for which the Company has vendor-specific objective evidence. The Company now believes that further purchases, if any, made by PG&E under the Aclara PLS Contract will not be material. Total revenues under the Aclara PLS Contract were \$34.3 million for the year ended September 30, 2008.

##### Aclara RF

In November 2005, Aclara RF entered into a contract (the "Aclara RF Contract") to provide equipment, software and services to PG&E in support of the gas utility portion of PG&E's AMI project. The Aclara RF Contract also provided PG&E the option to purchase an RF fixed network electric product from Aclara RF. The total anticipated contract revenue from the gas portion of the Aclara RF Contract

## Management's Discussion and Analysis

from commencement through the five-year full deployment is expected to be up to approximately \$225 million. As with the Aclara PLS Contract, equipment will be purchased only upon issuance of purchase orders and release authorizations, and PG&E will continue to have the right to purchase products or services from other suppliers for the gas and electric utility portion of the AMI project. The Aclara RF Contract provides for liquidated damages in the event of late deliveries, includes indemnification and other customary provisions, and may be terminated by PG&E for default, for its convenience and in the event of a force majeure lasting beyond certain prescribed periods. The Company has guaranteed the performance of the contract by Aclara RF.

Prior to PG&E's announced decision in 2007 to evaluate alternative electric AMI technologies mentioned above, Aclara RF agreed to provide 2,000 of its RF fixed network electric units for PG&E testing. Testing of Aclara RF's prototype electric solution began in the fourth quarter of 2007 and those units continue to perform in the field. During fiscal 2008, PG&E ordered approximately 290,000 second generation Aclara RF fixed network electric units which offer additional features and functionality. Also during this period, PG&E purchased electric units from a competing AMI vendor. Aclara RF and PG&E are negotiating an amendment to the Aclara RF Contract (the "Aclara RF Contract Amendment") which would establish and define the technical specifications of Aclara RF's electric solution and define the terms applicable to PG&E's purchase of any additional RF fixed network electric units. Notwithstanding the expected execution of the Aclara RF Contract Amendment, due to the uncertainty regarding PG&E's future plans for deployment of electric units, the Company cannot estimate the total value or the timing of orders, if any, that it may receive under the Aclara RF Contract Amendment.

## ORDERS AND BACKLOG

New orders received in 2008 were \$633.0 million, resulting in order backlog from continuing operations of \$266.8 million at September 30, 2008 as compared to an order backlog of \$257.6 million at September 30, 2007. In 2008, the Company recorded \$365.3 million of new orders related to USG products (including \$7.0 million of Doble acquired backlog), \$154.5 million related to Test products, and \$113.2 million related to Filtration products.

The Company received orders totaling \$111.8 million and \$49.1 million from PG&E under the Aclara PLS and RF Contracts during 2008 and 2007, respectively.

In July 2008, ETS-Lindgren signed a \$16.7 million contract with the National Automotive Testing and R&D Infrastructure Project (NATRIP) in India to provide two automotive chambers.

In July 2008, Aclara RF was selected by the City of New York to provide its fixed network AMI solution for the city's entire water service territory. The total value of purchase orders anticipated to be issued under this contract is up to \$68.3 million and the system is expected to be deployed over a three-year period with the initial orders received during the fourth quarter of 2008.

In July 2008, Aclara PLS's TWACS® AMI product was selected by Idaho Power Company for its entire electric service territory. The total value of purchase orders anticipated to be issued under this contract are up to \$25 million and the system is expected to be deployed over a three-year period beginning in early fiscal 2009.

In December 2007, Aclara PLS signed a contract with PREPA for a total value expected to be up to \$35 million for the purchase of Aclara PLS products to be released through the placement of purchase orders. The Company recorded \$22.4 million in entered orders related to this contract during 2008.

In 2007, the Company recorded \$201.8 million of new orders related to Utility Solutions products, \$145.5 million related to Test products and \$122.9 million related to Filtration products.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (SG&A) were \$151.2 million, or 24.2% of net sales in 2008, \$111.6 million, or 25.1% of net sales in 2007, and \$95.9 million, or 25.1% of net sales in 2006.

The increase in SG&A expenses in 2008 as compared to 2007 was primarily due to: \$24.8 million of SG&A expenses related to Doble and an approximately \$12.0 million increase in SG&A expenses related to Aclara mainly due to an increase in sales, marketing, and engineering head count.

The increase in SG&A expenses in 2007 as compared to the prior year was primarily due to: a \$12.0 million increase in SG&A related to Aclara mainly due to an increase in engineering and software development head count; and an increase of \$2.1 million incurred in the Test segment primarily to support new growth opportunities in Asia. In addition, a full twelve months of SG&A expenses were included in 2007 for Aclara RF and Aclara Software compared to eight months and ten months, respectively, in 2006.

## AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets was \$17.6 million in 2008, \$10.2 million in 2007 and \$6.4 million in 2006. Amortization of intangible assets included \$4.2 million and \$2.1 million of amortization of acquired intangible assets related to the Company's acquisitions in 2008 and 2007, respectively. The amortization of acquired intangible assets related to the Company's acquisitions is included in the Corporate operating segment's results. The remaining amortization expenses consist of other identifiable intangible assets (primarily software, patents and licenses). The Company recorded \$11.0 million and \$6.2 million in 2008 and 2007, respectively, related to Aclara PLS's TWACS NG capitalized software.

## OTHER EXPENSES (INCOME), NET

Other expenses (income), net, were \$0.1 million, \$2.8 million and \$(2.7) million in 2008, 2007 and 2006, respectively. There were no individually significant items included in other expenses (income), net for the year ended September 30, 2008.

## Management's Discussion and Analysis

Other expenses (income), net, in 2007 consisted primarily of: \$2.6 million of expenses within the Test segment related to an adverse arbitration award related to the delivery and installation contract completed in 2005 for a shielded communication room in an international location; partially offset by \$(0.6) million of royalty income. Other expenses (income), net, in 2006 consisted primarily of: a \$(1.8) million non-cash gain representing the reversal of a liability related to an indemnification obligation with respect to a previously divested subsidiary; and \$(1.4) million of royalty income.

### EARNINGS BEFORE INTEREST AND TAXES (EBIT)

The Company evaluates the performance of its operating segments based on EBIT, which the Company defines as earnings before interest and taxes.

EBIT is not a defined GAAP measure. However, the Company believes that EBIT provides investors and Management with a valuable and alternative method for assessing the Company's operating results. Management evaluates the performance of its operating segments based on EBIT and believes that EBIT is useful to investors to demonstrate the operational profitability of the Company's business segments by excluding interest and taxes, which are generally accounted for across the entire company on a consolidated basis. EBIT is also one of the measures Management uses to determine resource allocations and incentive compensation.

#### EBIT

(Dollars in millions)	Fiscal year ended			Change 2008 vs. 2007	Change 2007 vs. 2006
	2008	2007	2006		
USG	\$ 66.3	22.0	28.3	201.4%	(22.3)%
% of net sales	18.3%	11.1%	18.1%	7.2%	(7.0)%
Test	13.9	14.4	15.0	(3.5)%	(4.0)%
% of net sales	9.6%	10.2%	11.7%	(0.6)%	(1.5)%
Filtration	21.2	18.4	14.9	15.2%	23.5%
% of net sales	18.3%	17.4%	15.3%	0.9%	2.1%
Corporate	(20.6)	(17.4)	(14.7)	18.4%	18.4%
Total	\$ 80.8	37.4	43.5	116.0%	(14.0)%
% of net sales	13.0%	8.4%	11.4%	4.6%	(3.0)%

The reconciliation of EBIT to a GAAP financial measure is as follows:

(Dollars in millions)	2008	2007	2006
EBIT	\$ 80.8	37.4	43.5
Less: Interest expense	(9.8)	—	—
Add: Interest income	—	0.6	0.9
Less: Income taxes	(23.6)	(7.6)	(15.2)
Net earnings from continuing operations	\$ 47.4	30.4	29.2

#### USG

The \$44.3 million increase in EBIT in 2008 as compared to 2007 was due to: the EBIT contribution from Doble; and an increase in EBIT from Aclara and Comtrak related to the increased sales volumes. See "Pacific Gas & Electric" above.

The decrease in EBIT in 2007 as compared to 2006 was due to: a decrease at Aclara PLS due to an increase in TWACS NG software amortization expense of \$4 million, an increase in SG&A expenses mainly due to an increase in engineering head count, and an increase in PG&E program support costs and TWACS NG software maintenance.

#### Test

The \$0.5 million decrease in EBIT in 2008 as compared to the prior year was mainly due to: a decrease in EBIT from the Company's U.S. operations due to changes in product mix and \$0.9 million of non-recurring costs associated with the facility consolidation in Austin, Texas that was completed in January 2008; partially offset by a \$1.2 million increase in EBIT from the Company's European and Asian operations related to the increased sales volumes.

The decrease in EBIT in 2007 as compared to 2006 was mainly due to: a \$1.1 million decrease in EBIT from the Company's European operations as a result of lower sales volumes and U.K. facility move costs. In addition, the Company's 2007 U.S. operations were negatively impacted by \$2.6 million of total costs associated with an arbitration judgment previously described.

#### Filtration

EBIT increased \$2.8 million in 2008 as compared to 2007 mainly due to: an increase at PTI due to higher commercial aerospace shipments; and an increase at TekPack due to higher commercial product shipments.

EBIT increased in 2007 as compared to 2006 primarily due to: an increase at PTI due to higher commercial aerospace shipments; and an increase at VACCO due to higher defense spares shipments.

#### Corporate

Corporate office operating charges included in consolidated EBIT increased by \$3.2 million in 2008 as compared to 2007 mainly due to: a \$2.1 million increase in pretax amortization of acquired intangible assets primarily due to the current year acquisition of Doble and a \$0.6 million decrease in royalty income.

Corporate office operating charges included in consolidated EBIT increased by \$2.7 million in 2007 as compared to 2006 mainly due to: the 2007 absence of a \$1.8 million non-cash gain recorded in 2006 related to an indemnification obligation with respect to a previously divested subsidiary; a \$0.5 million increase in pretax stock compensation expense; \$0.4 million of additional professional fees incurred to support a research tax project; partially offset by a \$0.6 million decrease in pretax amortization of acquired intangible assets.



## Management's Discussion and Analysis

The "Reconciliation to Consolidated Totals (Corporate)" in Note 15 to the Consolidated Financial Statements represents Corporate office operating charges.

### INTEREST EXPENSE (INCOME), NET

Interest expense was \$9.8 million in 2008 compared to interest income of \$(0.6) million and \$(0.9) million in 2007 and 2006, respectively. The increase in interest expense in 2008 as compared to the prior year periods was due to the outstanding borrowings under the revolving credit facility related to the Doble acquisition.

### INCOME TAX EXPENSE

The 2008 effective tax rate from continuing operations was 33.3% compared to 20.1% in 2007 and 34.3% in 2006. The increase in the 2008 effective tax rate as compared to the prior year was due to lower tax credits as compared to 2007. The research tax credit reduced 2008 income tax expense by \$1.0 million and the effective tax rate by 1.4% and 2007 income tax expense by \$4.4 million and the 2007 effective tax rate by 11.6%; the impact of an export incentive reduced 2008 income tax expense by \$1.6 million and the effective tax rate by 2.2%; the impact of the domestic production deduction reduced 2008 income tax expense by \$0.8 million and the effective tax rate by 1.1%.

The decrease in the 2007 effective tax rate as compared to 2006 was due to: the impact of the research tax credit reduced 2007 income tax expense by \$4.4 million and the effective tax rate by 11.6%; resolution of certain tax exposure items reduced 2007 income tax expense by \$2.3 million and the effective tax rate by 5.9%; the release of a portion of the valuation allowance on capital loss carryforward reduced income tax expense by \$0.8 million and the effective tax rate by 2.0%; and the effect of deferring U.S. tax on foreign earnings and adjustments to foreign tax accruals reduced 2007 tax expense by \$0.5 million and the effective tax rate by 1.3%. The Company recorded \$1.3 million as a cumulative credit to adjust previously recorded tax amounts during 2007.

### Capital Resources and Liquidity

Working capital from continuing operations (current assets less current liabilities) decreased to \$102.0 million at September 30, 2008 from \$122.5 million at September 30, 2007.

The \$50.1 million increase in accounts receivable at September 30, 2008 is mainly due to: \$21.3 million related to the Doble acquisition, \$18.4 million related to the USG segment and \$7.2 million related to the Test segment, both due to timing and increased volume of sales. The \$11.1 million increase in inventories at September 30, 2008 is mainly due to the Doble acquisition. Other current assets decreased by \$12.9 million due to the decrease in deferred costs at Aclara PLS due to the revenue recognized under the Aclara PLS PG&E agreement. Current maturities of long-term debt increased \$50 million at September 30, 2008 due to the Company's outstanding borrowings related to the Doble acquisition.

Net cash provided by operating activities from continuing operations was \$81.0 million, \$46.1 million and \$57.5 million in 2008, 2007 and 2006, respectively. The increase in 2008 is related to improvements in operating working capital requirements.

Capital expenditures from continuing operations were \$16.7 million, \$12.4 million and \$5.8 million in 2008, 2007 and 2006, respectively. The increase in 2008 compared to 2007 included approximately \$3 million for the ETS Austin, Texas facility expansion. There were no commitments outstanding that were considered material for capital expenditures at September 30, 2008.

At September 30, 2008, intangible assets, net, of \$238.2 million included \$63.8 million of capitalized software. Approximately \$53.9 million of the capitalized software balance represents software development costs on the TWACS NG software within the USG segment. TWACS NG software is being deployed to efficiently handle the additional levels of communications dictated by the size of the utility service territories and the frequency of meter reads that are required under time-of-use or critical peak pricing scenarios to meet the requirements of large IOUs. Amortization is on a straight-line basis over seven years and began in March 2006. The Company recorded \$11.0 million and \$6.2 million in amortization expense related to TWACS NG during 2008 and 2007, respectively.

### DIVESTITURE

On November 25, 2007, the Company completed the sale of the filtration portion of Filtertek, Inc. (Filtertek) to Illinois Tool Works Inc. for \$74.4 million, net. The TekPack division of Filtertek was not included in the transaction. The Filtertek businesses are accounted for as discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the Filtertek businesses are reflected as discontinued operations in the financial statements and related notes for all periods presented. A pretax loss of \$0.2 million related to Filtertek is reflected in the Company's fiscal 2008 results in discontinued operations. Filtertek's net sales were \$13.7 million for the two-month period ended November 25, 2007. Filtertek's net sales were \$82.8 million and \$76.5 million for the years ended September 30, 2007 and 2006, respectively. The pretax earnings from operations from the Filtertek businesses were \$4.7 million and \$4.5 million for the years ended September 30, 2007 and 2006, respectively. Upon receipt of the final purchase price allocation in the fourth quarter of 2008, the Company reduced its expected tax expense on the sale of Filtertek from \$4.8 million to \$0.2 million. Filtertek's operations were included within the Company's Filtration segment prior to divestiture. The operations of the TekPack business are reflected in continuing operations and continue to be included in the Filtration segment.

## Management's Discussion and Analysis

### ACQUISITIONS

#### Doble

On November 30, 2007, the Company acquired the capital stock of Doble for a purchase price of approximately \$328 million, net of cash acquired. Doble, headquartered in Watertown, Massachusetts, is a worldwide leader in providing high-end diagnostic test solutions for the electric utility industry. The acquisition aligns with the Company's long-term growth strategy of expanding its products and services in the utility industry. The acquisition was funded by a combination of the Company's existing cash, including the proceeds from the divestiture of Filtertek, and borrowings under a new \$330 million credit facility led by National City Bank. The operating results for Doble, since the date of acquisition, are included within the USG segment.

#### LDIC

On July 31, 2008, the Company acquired the capital stock of LDIC GmbH and LDIC AG (collectively "LDIC") for a purchase price of approximately \$13 million, net of cash acquired. LDIC, with operations in Germany and Switzerland, is a manufacturer of partial discharge diagnostic testing instruments and systems serving the international electric utility industry with annual revenues of approximately \$10 million. The operating results for LDIC, since the date of acquisition, are included within Doble in the USG segment. The acquisition serves to broaden the portfolio of intelligent diagnostic products and will expand the distribution channels for Doble's products and services throughout Europe.

All of the Company's acquisitions have been accounted for using the purchase method of accounting, and accordingly, the respective purchase prices were allocated to the assets (including intangible assets) acquired and liabilities assumed based on estimated fair values at the date of acquisition. The financial results from these acquisitions have been included in the Company's financial statements from the date of acquisition.

### BANK CREDIT FACILITY

On November 30, 2007, in conjunction with the acquisition of Doble, the Company entered into a new \$330 million five-year revolving credit facility with a \$50 million increase option. This facility replaced the Company's \$100 million credit facility. The credit facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of sixteen banks, led by National City Bank as agent, with a maturity of November 30, 2012. In October 2008, PNC Financial Services Group Inc. agreed to purchase National City Bank. The Company anticipates no material changes to the terms of its credit facility due to this transaction.

The credit facility requires, as determined by certain financial ratios, a facility fee ranging from 15 to 25 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the LIBOR or based on the prime rate, at the Company's election. The credit facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility include a leverage ratio and an interest coverage ratio.

At September 30, 2008, the Company had approximately \$90 million available to borrow under the credit facility, plus a \$50 million increase option, in addition to its \$28.7 million cash on hand. At September 30, 2008, the Company had outstanding borrowings of \$233.7 million, and outstanding letters of credit of \$6.6 million. The Company classified \$50 million as the current portion on long-term debt as of September 30, 2008, as the Company intends to repay this amount within the next twelve months. As of September 30, 2008, the Company was in compliance with all bank covenants.

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

### CONTRACTUAL OBLIGATIONS

The following table shows the Company's contractual obligations as of September 30, 2008:

(Dollars in millions)

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Long-Term Debt Obligation	\$ 233.7	50.0	—	183.7	—
Estimated Interest Payments(1)	18.5	9.8	8.7	—	—
Operating Lease Obligations	25.2	7.3	9.9	6.0	2.0
Purchase Obligations(2)	—	—	—	—	—
<b>Total</b>	<b>\$ 277.4</b>	<b>67.1</b>	<b>18.6</b>	<b>189.7</b>	<b>2.0</b>

(1) Estimated interest payments for the Company's debt obligations were calculated based on management's determination of the estimated applicable interest rates and payment dates.

(2) A purchase obligation is defined as a legally binding and enforceable agreement to purchase goods and services that specifies all significant terms. Since the majority of the Company's purchase orders can be cancelled, they are not included in the table above.

The Company has no off balance sheet arrangements outstanding at September 30, 2008.

## Management's Discussion and Analysis

### SHARE REPURCHASES

In August 2008, the Company's Board of Directors authorized an open market common stock repurchase program of the Company's shares in a value not to exceed \$30 million, subject to market conditions and other factors which covers the period through September 30, 2009. There were no stock repurchases during 2008. The Company repurchased \$10 million or 265,000 shares in 2007 under a previously authorized program. There were no stock repurchases during 2006.

### PENSION FUNDING REQUIREMENTS

The minimum cash funding requirements related to the Company's defined benefit pension plans are approximately \$3.5 million in 2009, approximately \$1.8 million in 2010 and approximately \$1.8 million in 2011.

### OTHER

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

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

## Market Risk Analysis

### MARKET RISK EXPOSURE

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. The Company is exposed to market risk related to changes in interest rates and selectively uses derivative financial instruments, including forward contracts and swaps, to manage these risks. During 2008, the Company entered into a two-year amortizing interest rate swap to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. The swap notional amount for the first year is \$175 million amortizing to \$100 million in the second year. All derivative instruments are reported on the balance sheet at fair value. The derivative instrument is designated as a cash flow hedge and the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. Including the impact of interest rate swaps outstanding, the interest rates on approximately 75% of the Company's total borrowings were effectively fixed as of September 30, 2008. The following is a summary of the notional transaction amounts and fair values for the Company's outstanding derivative financial instruments by risk category and instrument type, as of September 30, 2008.

(Dollars in thousands)	Notional Amount	Avg Rec Rate	Average Pay Rate	Fair Value
Interest rate swaps	\$175,000	2.82%	3.99%	\$ (1,347)

At September 30, 2007, the Company had no obligations related to interest rate swaps.

The Company is also subject to foreign currency exchange rate risk inherent in its sales commitments, anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. The foreign currency most significant to the Company's operations is the Euro. Net sales to customers outside of the United States were \$130.9 million, \$83.1 million, and \$71.4 million in 2008, 2007 and 2006, respectively. The Company hedges certain foreign currency commitments by purchasing foreign currency forward contracts. The estimated fair value of open forward contracts at September 30, 2008 was not material.

### Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying Consolidated Financial Statements. In preparing these financial statements, Management has made its best estimates and judgments of certain amounts included in the Consolidated Financial Statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported under different conditions or using different assumptions related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Company's senior Management discusses the critical accounting policies described below with the Audit and Finance Committee of the Company's Board of Directors on a periodic basis.

The following discussion of critical accounting policies is intended to bring to the attention of readers those accounting policies which Management believes are critical to the Consolidated Financial Statements and other financial disclosure. It is not intended to be a comprehensive list of all significant accounting policies that are more fully described in Note 1 of Notes to Consolidated Financial Statements.

## Management's Discussion and Analysis

### REVENUE RECOGNITION

**USG Segment:** Within the USG segment, approximately 97% of the segment's revenue arrangements (approximately 55% of consolidated revenues) contain software components. Revenue under these arrangements is recognized in accordance with Statement of Position 97-2 (SOP 97-2), "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." The application of software revenue recognition requires judgment, including the determination of whether a software arrangement includes multiple elements and estimates of the fair value of the elements, or vendor-specific objective evidence of fair value ("VSOE"). Changes to the elements in a software arrangement, and the ability to identify VSOE for those elements could materially impact the amount of earned and/or deferred revenue. There have been no material changes to these estimates for the financial statement periods presented and the Company believes that these estimates generally should not be subject to significant variation in the future. The remaining 3% of the segment's revenues represent products sold under a single element arrangement and are recognized when products are delivered to unaffiliated customers.

**Test Segment:** Within the Test segment, approximately 40% of revenues (approximately 10% of consolidated revenues) are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers. Certain arrangements contain multiple elements which are accounted for under the provisions of EITF 00-21, "Revenue Arrangements with Multiple Deliverables." The application of EITF 00-21 requires judgment as to whether the deliverables can be divided into more than one unit of accounting and whether the separate units of accounting have value to the customer on a stand-alone basis. Changes to these elements could affect the timing of revenue recognition. There have been no material changes to these elements for the financial statement periods presented.

Approximately 60% of the segment's revenues (approximately 15% of consolidated revenues) are recorded under the percentage-of-completion provisions of SOP 81-1, "Accounting for the Performance of Construction-Type and Certain Production-Type Contracts" due to the complex nature of the enclosures that are designed and produced under these contracts. As discussed above, this method of accounting involves the use of various estimating techniques to project costs at completion, which are based on Management's judgment and the Company's substantial experience in developing these types of estimates. Changes in underlying assumptions/ estimates may adversely or positively affect financial performance. Due to the nature of these contracts and the operating unit's cost estimating process, the Company believes that these estimates generally should not be subject to significant variation in the future. There have been no material changes to these estimates for the financial statement periods presented. The Company regularly reviews its contract estimates to assess revisions in contract values and estimated costs at completion.

**Filtration Segment:** Within the Filtration segment, approximately 65% of segment revenues (approximately 12% of consolidated revenues) are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers.

Approximately 35% of segment revenues (approximately 8% of consolidated revenues) are recorded under the percentage-of-completion provisions of SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" because the Company manufactures complex products for aerospace and military customers under production contracts. The percentage-of-completion method of accounting involves the use of various estimating techniques to project costs at completion. These estimates involve various assumptions and projections relative to the outcome of future events over a period of several years, including future labor productivity and availability, the nature and complexity of the work to be performed, availability of materials, the impact of delayed performance, and the timing of product deliveries. These estimates are based on Management's judgment and the Company's substantial experience in developing these types of estimates. Changes in underlying assumptions/estimates may adversely affect financial performance if they increase estimated project costs at completion, or positively affect financial performance if they decrease estimated project costs at completion. Due to the nature of these contracts and the operating unit's cost estimating process, the Company believes that these estimates generally should not be subject to significant variation in the future. There have been no material changes to these estimates for the financial statement periods presented. The Company regularly reviews its estimates to assess revisions in contract values and estimated costs at completion.

### INVENTORY

Inventories are valued at the lower of cost (first-in, first-out) or market value. Management regularly reviews inventories on hand compared to historical usage and estimated future usage and sales. 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 unliquidated progress payments. 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 may not be realized within one year.



## Management's Discussion and Analysis

### INCOME TAXES

The Company operates in numerous taxing jurisdictions and is subject to examination by various U.S. Federal, state and foreign jurisdictions for various tax periods. Additionally, the Company has retained tax liabilities and the rights to tax refunds in connection with various divestitures of businesses in prior years. The Company's income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which the Company does business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions, as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, Management's estimates of income tax liabilities may differ from actual payments or assessments.

While the Company has support for the positions taken on its tax returns, taxing authorities are increasingly asserting alternate interpretations of laws, and are challenging cross jurisdictional transactions. Cross jurisdictional transactions between the Company's subsidiaries involving transfer prices for products and services, as well as various U.S. Federal, state and foreign tax matters, comprise the Company's income tax exposures. Management regularly assesses the Company's position with regard to tax exposures and records liabilities for these uncertain tax positions and related interest and penalties, if any, according to the principles of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" (FIN 48). The Company has recorded an accrual that reflects the recognition and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return based upon FIN 48. Additional future income tax expense or benefit may be recognized once the positions are effectively settled.

At the end of each interim reporting period, Management estimates the effective tax rate expected to apply to the full fiscal year. The estimated effective tax rate contemplates the expected jurisdiction where income is earned, as well as tax planning strategies. Current and projected growth in income in higher tax jurisdictions may result in an increasing effective tax rate over time. If the actual results differ from Management's estimates, Management may have to adjust the effective tax rate in the interim period if such determination is made.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets may be reduced by a valuation allowance if it is more likely than not that some portion 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. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance when Management believes it is more likely than not such assets will not be recovered, taking into consideration historical operating results, expectations of future earnings, tax planning strategies, and the expected timing of the reversals of existing temporary differences.

### GOODWILL AND OTHER LONG-LIVED ASSETS

In accordance with SFAS 142, Management annually reviews goodwill and other long-lived assets with indefinite useful lives for impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If the Company determines that the carrying value of the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Fair value is measured based on a discounted cash flow method using a discount rate determined by Management to be commensurate with the risk inherent in the Company's current business model. The estimates of cash flows and discount rate are subject to change due to the economic environment, including such factors as interest rates, expected market returns and volatility of markets served. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates could result in impairment charges. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144.

### PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

The measurement of liabilities related to pension plans and other post-retirement benefit plans is based on Management's assumptions related to future events including interest rates, return on pension plan assets, rate of compensation increases, and health care cost trend rates. Actual pension plan asset performance will either decrease or increase unamortized pension losses that will affect net earnings in future years. Depending upon the performance of the equity and bond markets in 2009, the Company could be required to record a charge to equity. In addition, if the discount rate was decreased by 25 basis points from 7.25% to 7.00%, the projected benefit obligation for the defined benefit plan would increase by approximately \$1.8 million and result in an additional after-tax charge to shareholders' equity of approximately \$1.1 million. The discount rate used in measuring the Company's pension and postretirement welfare obligations was developed by matching yields of actual high-quality corporate bonds to expected future pension plan cash flows (benefit payments). Over 400 Aa-rated, non-callable bonds with a wide range of maturities were used in the analysis. After using the bond yields to determine the present value of the plan cash flows, a single representative rate that resulted in the same present value was developed.

## Management's Discussion and Analysis

### Other Matters

#### CONTINGENCIES

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

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. The Company is exposed to market risk related to changes in interest rates and selectively uses derivative financial instruments, including forward contracts and swaps, to manage these risks. During 2008, the Company entered into a two-year amortizing interest rate swap to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. The swap notional amount for the first year is \$175 million amortizing to \$100 million in the second year. All derivative instruments are reported on the balance sheet at fair value. The derivative instrument is designated as a cash flow hedge and the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. At September 30, 2007, the Company had no obligations related to interest rate swaps. See further discussion in "Management's Discussion and Analysis — Market Risk Analysis" regarding the Company's market risks.

#### CONTROLS AND PROCEDURES

The Company carried out an evaluation under the supervision of and with the participation of Management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in the Company's internal controls or in other factors during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material impact to the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" (SFAS 141R), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The requirements of SFAS 141R are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is not permitted.

In February 2008, the FASB released FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," which delayed for one year the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Items in this classification include goodwill, asset retirement obligations, rationalization accruals, intangible assets with indefinite lives and certain other items. The adoption of SFAS 157 with respect to the Company's non-financial assets and liabilities, effective January 1, 2009, is not expected to have a significant effect on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The adoption of SFAS 161 is not expected to have a material impact to the Company's financial position or results of operations.

## Management's Discussion and Analysis

### Forward-Looking Information

Statements regarding future events and the Company's future results that are based on current expectations, estimates, forecasts and projections about the Company's performance and the industries in which the Company operates, adequacy of the Company's credit facilities and future cash flows, estimates of anticipated contract costs and revenues, the timing, amount and success of claims for research credits, the anticipated value of the Aclara RF Contract with PG&E, the outcome of current litigation, claims and charges, the anticipated timing and amount of lost deferred tax assets, continued reinvestment of foreign earnings, the impact of SFAS 161 and SFAS 157, the timing, total value and period of performance of contracts awarded to the Company, the accuracy of the Company's estimates utilized in software revenue recognition, the accuracy of the Company's estimates utilized to project costs at completion in the Test segment and Filtration segment, income tax liabilities, the effective tax rate, the timing and results of the IRS audit of the Company's Federal income tax returns for the period ended September 30, 2003 through September 30, 2006, repayment of debt within the next twelve months, the recognition of costs related to share-based compensation arrangements, future costs relating to environmental matters, share repurchases, investments, sustained performance improvement, performance improvement initiatives, growth opportunities, new product development, the Company's ability to increase shareholder value, acquisitions, and the beliefs and assumptions of Management contained in the letter To Our Shareholders (pages 1-2), and Management's Discussion and Analysis and other statements contained herein which are not strictly historical are considered "forward-looking statements" within the meaning of the safe harbor provisions of the Federal securities laws. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that such statements are only predictions, speak only as of the date of this report, and the Company undertakes no duty to update. 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 those described under "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal years ended September 30, 2008 and the following: actions by the California Public Utility Commission; PG&E's Board of Directors or PG&E's management impacting PG&E's AMI projects; the timing and content of purchase order releases under the PG&E contracts; and Aclara RF System's successful performance of the Aclara RF Contract with PG&E; termination for convenience of customer contracts; timing and magnitude of future contract awards; weakening of economic conditions in served markets; the success of the Company's competitors; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties; the availability of selected acquisitions; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; labor disputes; changes in laws and regulations including but not limited to changes in accounting standards and taxation requirements; costs relating to environmental matters; litigation uncertainty; and the Company's successful execution of internal operating plans.

## Consolidated Statements of Operations

(Dollars in thousands, except per share amounts)  
Years ended September 30,

	2008	2007	2006
Net sales	<b>\$623,817</b>	444,704	382,353
Costs and expenses:			
Cost of sales	<b>374,098</b>	282,596	239,199
Selling, general and administrative expenses	<b>151,173</b>	111,610	95,909
Amortization of intangible assets	<b>17,570</b>	10,243	6,410
Interest expense (income), net	<b>9,812</b>	(599)	(867)
Other expenses (income), net	<b>149</b>	2,815	(2,683)
Total costs and expenses	<b>552,802</b>	406,665	337,968
Earnings before income tax	<b>71,015</b>	38,039	44,385
Income tax expense	<b>23,613</b>	7,633	15,220
Net earnings from continuing operations	<b>\$ 47,402</b>	30,406	29,165
(Loss) earnings from discontinued operations, net of tax of \$325 in 2008, \$1,382 in 2007 and \$2,402 in 2006	<b>(115)</b>	3,307	2,115
Loss on sale of discontinued operations, net of tax of \$157	<b>(576)</b>	—	—
Net (loss) earnings from discontinued operations	<b>(691)</b>	3,307	2,115
Net earnings	<b>\$ 46,711</b>	33,713	31,280
Earnings (loss) per share:			
Basic:			
Continuing operations	<b>\$ 1.83</b>	1.17	1.14
Discontinued operations	<b>(0.03)</b>	0.13	0.08
Net earnings	<b>\$ 1.80</b>	1.30	1.22
Diluted:			
Continuing operations	<b>1.80</b>	1.15	1.11
Discontinued operations	<b>(0.02)</b>	0.13	0.08
Net earnings	<b>\$ 1.78</b>	1.28	1.19
Average common shares outstanding (in thousands):			
Basic	<b>25,909</b>	25,865	25,718
Diluted	<b>26,315</b>	26,387	26,386

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Balance Sheets

(Dollars in thousands)  
Years ended September 30,

2008

2007

### ASSETS

#### Current assets:

Cash and cash equivalents	\$ 28,667	18,638
Accounts receivable, less allowance for doubtful accounts of \$1,050 and \$519 in 2008 and 2007, respectively	135,436	85,319
Costs and estimated earnings on long-term contracts, less progress billings of \$34,978 and \$3,881 in 2008 and 2007, respectively	9,095	11,520
Inventories	66,962	55,885
Current portion of deferred tax assets	15,368	25,264
Other current assets	15,108	28,054
Current assets from discontinued operations	—	35,670
Total current assets	270,636	260,350

#### Property, plant and equipment:

Land and land improvements	5,342	4,995
Buildings and leasehold improvements	48,050	32,626
Machinery and equipment	64,438	44,938
Construction in progress	2,344	5,184
	120,174	87,743

Less accumulated depreciation and amortization	47,583	37,550
Net property, plant and equipment	72,591	50,193

Goodwill	328,878	124,757
Intangible assets, net	238,223	74,624
Other assets	17,745	10,338
Other assets from discontinued operations	—	55,845
	\$928,073	576,107

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Balance Sheets

(Dollars in thousands)  
Years ended September 30,

2008

2007

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Current liabilities:

Short-term borrowings and current maturities of long-term debt	\$ 50,000	—
Accounts payable	49,329	45,726
Advance payments on long-term contracts, less costs incurred of \$7,880 and \$20,314 in 2008 and 2007, respectively	7,467	3,408
Accrued salaries	20,718	12,348
Current portion of deferred revenue	18,920	24,621
Accrued other expenses	22,249	16,103
Current liabilities from discontinued operations	—	16,994
Total current liabilities	168,683	119,200
Long-term portion of deferred revenue	2,228	4,514
Pension obligations	12,172	8,029
Deferred tax liabilities	83,515	18,522
Other liabilities	9,588	7,825
Long-term debt	183,650	—
Long-term liabilities from discontinued operations	—	2,534
Total liabilities	459,836	160,624

#### 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 29,465,154 and 29,159,629 shares in 2008 and 2007, respectively	295	292
Additional paid-in capital	254,240	243,131
Retained earnings	273,470	226,759
Accumulated other comprehensive income, net of tax	556	6,303
	528,561	476,485
Less treasury stock, at cost (3,375,106 and 3,416,966 common shares in 2008 and 2007, respectively)	(60,324)	(61,002)
Total shareholders' equity	468,237	415,483
	\$928,073	576,107

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Shareholders' Equity

(In thousands) Years ended September 30,	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance, September 30, 2005	28,739	\$ 287	228,317	159,363	(5,566)	(51,377)	331,024
SAB 108 Cumulative effect adjustment	—	—	—	2,403	—	—	2,403
<b>Comprehensive income:</b>							
Net earnings	—	—	—	31,280	—	—	31,280
Translation adjustments	—	—	—	—	1,448	—	1,448
Minimum pension liability, net of tax of \$(1,103)	—	—	—	—	2,048	—	2,048
Comprehensive income							34,776
Stock options and stock compensation plans, net of tax benefit of \$(3,173)	292	3	8,073	—	—	155	8,231
Balance, September 30, 2006	29,031	290	236,390	193,046	(2,070)	(51,222)	376,434
<b>Comprehensive income:</b>							
Net earnings	—	—	—	33,713	—	—	33,713
Translation adjustments	—	—	—	—	4,252	—	4,252
Minimum pension liability, net of tax of \$(1,622)	—	—	—	—	3,558	—	3,558
Comprehensive income							41,523
SFAS 158 adjustment, net of tax of \$(358)	—	—	—	—	563	—	563
Stock options and stock compensation plans, net of tax benefit of \$(828)	129	2	6,741	—	—	227	6,970
Purchases into treasury	—	—	—	—	—	(10,007)	(10,007)
Balance, September 30, 2007	29,160	292	243,131	226,759	6,303	(61,002)	415,483
<b>Comprehensive income:</b>							
Net earnings	—	—	—	46,711	—	—	46,711
Translation adjustments	—	—	—	—	(869)	—	(869)
Net unrecognized actuarial loss, net of tax of \$2,506	—	—	—	—	(4,043)	—	(4,043)
Interest rate swap, net of tax of \$512	—	—	—	—	(835)	—	(835)
Comprehensive income							40,964
Stock options and stock compensation plans, net of tax benefit of \$(845)	305	3	11,109	—	—	678	11,790
Balance, September 30, 2008	29,465	\$ 295	254,240	273,470	556	(60,324)	468,237

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

(Dollars in thousands)  
Years ended September 30,

	2008	2007	2006
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 46,711	33,713	31,280
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>			
Net loss (earnings) from discontinued operations, net of tax	691	(3,307)	(2,115)
Depreciation and amortization	27,634	16,406	11,716
Stock compensation expense	3,990	4,834	4,285
Changes in operating working capital	(8,770)	(29,504)	2,201
Effect of deferred taxes on tax provision	12,349	13,759	4,242
Change in deferred revenue and costs, net	(2,780)	9,339	4,244
Other	1,213	814	1,671
Net cash provided by operating activities — continuing operations	81,038	46,054	57,524
Net (loss) earnings from discontinued operations, net of tax	(691)	3,307	2,115
Net cash used by discontinued operations	(3,207)	(4,375)	(3,427)
Net cash used by operating activities — discontinued operations	(3,898)	(1,068)	(1,312)
Net cash provided by operating activities	77,140	44,986	56,212
<b>Cash flows from investing activities:</b>			
Acquisition of businesses, net of cash acquired	(345,395)	(8,250)	(91,968)
Proceeds from sale of marketable securities	4,966	—	—
Change in restricted cash	(6,841)	—	—
Capital expenditures — continuing operations	(16,683)	(12,443)	(5,847)
Additions to capitalized software	(11,012)	(29,994)	(27,802)
Net cash used by investing activities — continuing operations	(374,965)	(50,687)	(125,617)
Capital expenditures — discontinued operations	(1,126)	(7,060)	(3,270)
Proceeds from divestiture of business, net — discontinued operations	74,370	—	—
Net cash provided (used) by investing activities — discontinued operations	73,244	(7,060)	(3,270)
Net cash used by investing activities	(301,721)	(57,747)	(128,887)
<b>Cash flows from financing activities:</b>			
Proceeds from long-term debt	304,157	—	52,000
Principal payments on long-term debt	(71,197)	—	(52,000)
Debt issuance costs	(2,965)	—	—
Net (decrease) increase in short-term borrowings — discontinued operations	(2,844)	2,844	—
Purchases of common stock into treasury	—	(10,007)	—
Excess tax benefit from stock options exercised	737	73	1,569
Proceeds from exercise of stock options	6,384	1,843	2,761
Other	338	(173)	680
Net cash provided (used) by financing activities	234,610	(5,420)	5,010
Net increase (decrease) in cash and cash equivalents	10,029	(18,181)	(67,665)
Cash and cash equivalents at beginning of year	18,638	36,819	104,484
Cash and cash equivalents at end of year	\$ 28,667	18,638	36,819
<b>Changes in operating working capital:</b>			
Accounts receivable, net	\$ (30,497)	(16,220)	(8,749)
Costs and estimated earnings on long-term contracts, net	2,425	(10,175)	3,047
Inventories	1,051	(14,132)	2,190
Other current assets	5,732	(5,097)	3,294
Accounts payable	734	12,950	6,703
Advance payments on long-term contracts, net	3,716	(3,959)	594
Accrued expenses	8,069	7,129	(4,878)
	\$ (8,770)	(29,504)	2,201
<b>Supplemental cash flow information:</b>			
Interest paid	\$ 9,233	109	456
Income taxes paid (including state, foreign & AMT)	7,004	3,731	10,768

See accompanying Notes to Consolidated Financial Statements.



## Notes to Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

#### A. PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of ESCO Technologies Inc. (ESCO) and its wholly owned subsidiaries (the Company). All significant intercompany transactions and accounts have been eliminated in consolidation.

#### B. BASIS OF PRESENTATION

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, 2008 and 2007.

As a result of the acquisition of Doble Engineering Company (Doble) in November 2007, the Company changed the name of the Communications segment to the Utility Solutions Group segment. The renaming of this segment more accurately describes the segment's operating activities and strategically aligns the respective operating entities to focus on a single goal of satisfying the expanding Automated Metering Infrastructure (AMI), Smart Grid, and other operational requirements of electric, gas and water utilities worldwide. The name change was done in conjunction with the Company's strategic integration and rebranding of its AMI related technologies under the unified brand name Aclara™, and renaming the businesses as follows: Distribution Control Systems, Inc. was renamed Aclara Power-Line Systems Inc.; Hexagram, Inc. was renamed Aclara RF Systems Inc.; and Nexus Energy Software, Inc. was renamed Aclara Software Inc.

#### C. NATURE OF OPERATIONS

The Company has three industry operating segments: Utility Solutions Group (USG), RF Shielding and Test (Test), and Filtration/Fluid Flow (Filtration). The USG segment is a proven supplier of special purpose fixed network communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. The Test segment is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy.

The Filtration segment designs and manufactures specialty filtration products including hydraulic filter elements used in commercial aerospace applications, unique filter mechanisms used in micro propulsion devices for satellites and custom designed filters for manned and unmanned aircraft.

#### D. USE OF ESTIMATES

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

#### E. REVENUE RECOGNITION

**USG Segment:** Within the USG segment, approximately 97% of the segment's revenue arrangements (approximately 55% of consolidated revenues) contain software components. Revenue under these arrangements is recognized in accordance with Statement of Position 97-2 (SOP 97-2), "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." The segment's software revenue arrangements generally include multiple products and services, or "elements" consisting of meter and substation hardware, meter reading system software, program management support during the deployment period and software support (post-contract customer support, "PCS"). These arrangements typically require the Company to deliver software at the inception of the arrangement while the hardware and program management support are delivered over the contractual deployment period. Software support is provided during deployment and subsequent thereto. The software element included in such arrangements is essential to the functionality of the hardware and, therefore, the hardware is considered to be software-related. Hardware is considered a specified element in the software arrangement and vendor-specific objective evidence of fair value ("VSOE") has been established for this element. VSOE for the hardware element is determined based on the price when sold separately to customers. These revenue arrangements are divided into separate units of accounting if the delivered item(s) has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered item(s) and delivery/performance of the undelivered item(s) is probable. For multiple element arrangements, revenue is allocated to the individual elements based on VSOE of the individual elements.

The application of these principles requires judgment, including the determination of whether a software arrangement includes multiple elements and estimates of the fair value of the elements. The VSOE of the fair value of undelivered elements is determined based on the historical evidence of stand-alone sales of these elements to customers. Hardware revenues are generally recognized at the time of shipment or receipt by customer depending upon contract terms. VSOE generally does not exist for the software element; therefore, the Company uses the residual method to recognize revenue when VSOE exists for all other undelivered elements. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue.

## Notes to Consolidated Financial Statements

SOP 97-2 requires the seller of software that includes post-contract customer support (PCS) to establish VSOE of the undelivered element of the contract in order to account separately for the PCS revenue. The Company determines VSOE by a consistent pricing of PCS and PCS renewals as a percentage of the software license fees or by reference to contractual renewals, when the renewal terms are substantive. Revenues for PCS are recognized ratably over the maintenance term specified in the contract (generally in 12 monthly increments). Revenues for program management support are recognized when services have been provided. The Company determines VSOE for program management support based on hourly rates when services are performed separately.

Approximately 3% of segment revenues are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers. Products include the SecurVision® digital video surveillance systems.

**Test Segment:** Within the Test segment, approximately 40% of revenues (approximately 10% of consolidated revenues) are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers. Certain arrangements contain multiple elements which are accounted for under the provisions of EITF 00-21, "Revenue Arrangements with Multiple Deliverables." The multiple elements generally consist of materials and installation services used in the construction and installation of standard shielded enclosures to measure and contain magnetic and electromagnetic energy. The installation process does not involve changes to the features or capabilities of the equipment and does not require proprietary information about the equipment in order for the installed equipment to perform to specifications. There is objective and reliable evidence of fair value for each of the units of accounting, as a result, the arrangement revenue is allocated to the separate units of accounting based on their relative fair values. Typically, fair value is the price of the deliverable when it is regularly sold on a stand-alone basis.

Approximately 60% of the segment's revenues (approximately 15% of consolidated revenues) are recorded under the percentage-of-completion provisions of SOP 81-1, "Accounting for the Performance of Construction-Type and Certain Production-Type Contracts" due to the complex nature of the enclosures that are designed and produced under these contracts. Products accounted for under SOP 81-1 include the construction and installation of complex test chambers to a buyer's specifications that provide its customers with the ability to measure and contain magnetic, electromagnetic and acoustic energy. As discussed above, for arrangements that are accounted for under SOP 81-1, the Company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognizes these revenues and costs based on either (a) units delivered or (b) contract milestones.

If a reliable measure of output cannot be established (which applies in less than 8% of Test unit revenues or 2% of consolidated revenues), input measures (e.g., costs incurred) are used to recognize revenue. Given the nature of the Company's operations related to these contracts, costs incurred represent an appropriate measure of progress towards completion.

The percentage-of-completion method of accounting involves the use of various techniques to estimate expected costs at completion. These estimates are based on Management's judgment and the Company's substantial experience in developing these types of estimates.

**Filtration Segment:** Within the Filtration segment, approximately 65% of revenues (approximately 12% of consolidated revenues) are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers.

Approximately 35% of segment revenues (approximately 8% of consolidated revenues) are recorded under the percentage-of-completion provisions of SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Products accounted for under SOP 81-1 include the design, development and manufacture of complex fluid control products, quiet valves, manifolds and systems primarily for the aerospace and military markets. For arrangements that are accounted for under SOP 81-1, the Company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognizes these revenues and costs based on units delivered. The percentage-of-completion method of accounting involves the use of various techniques to estimate expected costs at completion.

## F. CASH AND CASH EQUIVALENTS

Cash equivalents include temporary investments that are readily convertible into cash, such as money markets.

## G. ACCOUNTS RECEIVABLE

Accounts receivable have been reduced by an allowance for amounts that the Company estimates are uncollectible in the future. This estimated allowance is based on Management's evaluation of the financial condition of the customer and historical write-off experience.

## H. COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS

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

## Notes to Consolidated Financial Statements

### I. INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market value. 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 unliquidated progress payments. In accordance with industry practice, costs incurred on contracts in progress include amounts relating to programs having production cycles longer than one year, and a portion thereof will not be realized within one year.

### J. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed primarily on a straight-line basis over the estimated useful lives of the assets: buildings, 10-40 years; machinery and equipment, 3-10 years; and office furniture and equipment, 3-10 years. Leasehold improvements are amortized over the remaining term of the applicable lease or their estimated useful lives, whichever is shorter.

### K. GOODWILL AND OTHER LONG-LIVED ASSETS

Goodwill represents the excess of purchase costs over the fair value of net identifiable assets acquired in business acquisitions. The Company accounts for goodwill as required by Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets." Management annually reviews goodwill and other long-lived assets with indefinite useful lives for impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If the Company determines that the carrying value of the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

Fair value is measured based on a discounted cash flow method using a discount rate determined by Management to be commensurate with the risk inherent in the Company's current business model. Other intangible assets represent costs allocated to identifiable intangible assets, principally capitalized software, patents, trademarks, and technology rights. See Note 4 regarding goodwill and other intangible assets activity.

### L. CAPITALIZED SOFTWARE

The costs incurred for the development of computer software that will be sold, leased, or otherwise marketed are charged to expense when incurred as research and development until technological feasibility has been established for the product. Technological feasibility is typically established upon completion of a detailed program design. Costs incurred after this point are capitalized on a project-by-project basis in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Capitalized costs primarily consist of external development costs. Upon general release of the product to customers, the Company ceases capitalization and begins amortization, which is calculated on a project-by-project basis as the greater of (1) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues for the product or (2) the straight-line method over the estimated economic life of the product. The Company generally amortizes the software development costs over a three- to seven-year period based upon the estimated future economic life of the product. Factors considered in determining the estimated future economic life of the product include anticipated future revenues, and changes in software and hardware technologies. The carrying values of capitalized costs are evaluated for impairment on an annual basis to determine if circumstances exist which indicate the carrying value of the asset may not be recoverable. If expected cash flows are insufficient to recover the carrying amount of the asset, then an impairment loss is recognized to state the asset at its net realizable value.

### M. IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

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

### N. INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets may be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance when Management believes it is more likely than not such assets will not be recovered, taking into consideration historical operating results, expectations of future earnings, tax planning strategies, and the expected timing of the reversals of existing temporary differences.

### O. RESEARCH AND DEVELOPMENT COSTS

Company-sponsored research and development costs include research and development and bid and proposal efforts related to the Company's products and services. Company-sponsored product development costs are charged to expense when incurred. Customer-sponsored research and development costs incurred pursuant to contracts are accounted for similar to other program costs. Customer-sponsored research and development costs refer

## Notes to Consolidated Financial Statements

to certain situations whereby customers provide funding to support specific contractually defined research and development costs. As the Company incurs costs under these specific funding contracts, the costs are "inventoried" until billed to the customer for reimbursement, consistent with other program costs. Once billed/invoiced, these costs are transferred to accounts receivable until the cash is received from the customer. All research and development costs incurred in excess of the contractual funding amount, or costs incurred outside the scope of the contractual research and development project, are expensed as incurred.

### P. FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign operations are translated into U.S. dollars in accordance with SFAS 52 "Foreign Currency Translation" (SFAS 52). The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income.

### Q. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options and vesting of performance-accelerated restricted shares using the treasury stock method.

The number of shares used in the calculation of earnings per share for each year presented is as follows:

(In thousands)	2008	2007	2006
Weighted Average Shares Outstanding — Basic	25,909	25,865	25,718
Dilutive Options and Performance- Accelerated Restricted Stock	406	522	668
Adjusted Shares — Diluted	26,315	26,387	26,386

Options to purchase 542,689 shares at prices ranging from \$35.69-\$54.88 were outstanding during the year ended September 30, 2008, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. Options to purchase 602,731 shares at prices ranging from \$36.07-\$54.88 were outstanding during the year ended September 30, 2007, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. Options to purchase 264,430 shares at prices ranging from \$42.99-\$54.88 were outstanding during the year ended September 30, 2006, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in various periods through 2013. Approximately 38,000, 14,000 and 9,000 restricted shares were outstanding but unearned at September 30, 2008, 2007 and 2006, respectively, and, therefore, were not included in the respective years' computations of diluted EPS.

### R. SHARE-BASED COMPENSATION

The Company provides compensation benefits to certain key employees under several share-based plans providing for employee stock options and/or performance-accelerated restricted shares (restricted shares), and to non-employee directors under a non-employee directors compensation plan.

### S. COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income as shown on the consolidated balance sheet of \$0.6 million at September 30, 2008 consisted of \$(6.5) million related to the pension net actuarial loss; \$7.9 million related to currency translation adjustments; and \$(0.8) million related to interest rate swaps. Accumulated other comprehensive income of \$6.3 million at September 30, 2007 consisted of \$8.8 million related to currency translation adjustments; and \$(2.5) million related to the minimum pension liability.

### T. DEFERRED REVENUE AND COSTS

Deferred revenue and costs are recorded for products or services that have not been provided but have been invoiced under contractual agreements or paid for by a customer, or when products or services have been provided but the criteria for revenue recognition have not been met. If there is a customer acceptance provision or there is uncertainty about customer acceptance, revenue and costs are deferred until the customer has accepted the product or service.

### U. DERIVATIVE FINANCIAL INSTRUMENTS

All derivative financial instruments are reported on the balance sheet at fair value. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as a hedge and on the type of hedge. For each derivative instrument designated as a cash flow hedge, the effective portion of the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. For each derivative instrument designated as a fair value hedge, the gain or loss on the derivative and the offsetting gain or loss on the hedged item are recognized immediately in earnings. Regardless of type, a fully effective hedge will result in no net earnings impact while the derivative is outstanding. To the extent that any hedge is ineffective at offsetting cash flow or fair value changes in the underlying hedged item, there could be a net earnings impact.

## Notes to Consolidated Financial Statements

### V. NEW ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material impact to the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" (SFAS 141R), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The requirements of SFAS 141R are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is not permitted.

In February 2008, the FASB released FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," which delayed for one year the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Items in this classification include goodwill, asset retirement obligations, rationalization accruals, intangible assets with indefinite lives and certain other items. The adoption of SFAS 157 with respect to the Company's non-financial assets and liabilities, effective January 1, 2009, is not expected to have a significant effect on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The adoption of SFAS 161 is not expected to have a material impact to the Company's financial position or results of operations.

### 2. Divestiture

On November 25, 2007, the Company completed the sale of the filtration portion of Filtertek Inc. (Filtertek) to Illinois Tool Works Inc. for \$74.4 million, net. The TekPack division of Filtertek was not included in the transaction. The Filtertek businesses are accounted for as discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the Filtertek businesses are reflected as discontinued operations in the financial statements and related notes for all periods presented. A pretax loss of \$0.2 million related to Filtertek is reflected in the Company's fiscal 2008 results in discontinued operations. Filtertek's net sales were \$13.7 million for the two-month period ended November 25, 2007. Filtertek's net sales were \$82.8 million and \$76.5 million for the years ended September 30, 2007 and 2006, respectively. The pretax earnings from operations from the Filtertek businesses were \$4.7 million and \$4.5 million for the years ended September 30, 2007 and 2006, respectively. Upon receipt of the final purchase price allocation in the fourth quarter of 2008, the Company reduced its expected tax expense on the sale of Filtertek from \$4.8 million to \$0.2 million. Filtertek's operations were included within the Company's Filtration segment prior to divestiture. The operations of the TekPack business are reflected in continuing operations and continue to be included in the Filtration segment.

The major classes of discontinued assets and liabilities included in the Consolidated Balance Sheet at September 30, 2007 are shown below:

(In thousands)	September 30, 2007
<b>Assets</b>	
Accounts receivable, net	\$ 17,675
Inventories	11,986
Other current assets	6,009
Current assets	35,670
Net property, plant & equipment	28,084
Goodwill	24,709
Other assets	3,052
<b>Total assets of Discontinued Operations</b>	<b>\$ 91,515</b>
<b>Liabilities</b>	
Accounts payable	\$ 8,908
Accrued expenses and other Current liabilities	8,086
Current liabilities	16,994
Other liabilities	2,534
<b>Total liabilities of Discontinued Operations</b>	<b>\$ 19,528</b>

### 3. Acquisitions

#### Doble

On November 30, 2007, the Company acquired the capital stock of Doble for a purchase price of approximately \$328 million, net of cash acquired. Doble, headquartered in Watertown, Massachusetts, is a worldwide leader in providing high-end diagnostic test solutions for the electric utility industry. The acquisition aligns with the Company's long-term growth strategy of expanding its products and services in the utility industry. The acquisition was funded by a combination of the Company's existing cash, including the proceeds from the divestiture of Filtertek, and borrowings under a new \$330 million credit facility led by National City Bank. The operating results for Doble, since the date of acquisition, are included within the USG segment.

## Notes to Consolidated Financial Statements

The acquisition was recorded by allocating the cost of completing the acquisition to the assets acquired, including identifiable intangible assets and liabilities assumed, based on their estimated fair values at the acquisition date pursuant to SFAS No. 141, "Business Combinations." The excess of the cost of the acquisition over the net amounts assigned to the fair value of the assets acquired and the liabilities assumed was recorded as goodwill. The final valuation of intangible and tangible assets was completed prior to September 30, 2008. The purchase price allocation is as follows:

(In thousands)	
Net tangible assets	\$ 44,498
Identifiable intangible assets:	
Trade names	112,290
Customer relationships	52,510
Software and databases	3,790
Total identifiable intangible assets	168,590
Goodwill	192,203
Long-term deferred tax liabilities	(67,830)
<b>Total cash consideration</b>	<b>\$337,461</b>
Reconciliation of purchase price:	
Total cash consideration	\$337,461
Less: cash acquired	(9,639)
<b>Purchase price</b>	<b>\$327,822</b>

The identifiable intangible assets consisting of customer relationships will be amortized on a straight-line basis over twenty years and the software and databases will be amortized on a straight-line basis over five years. The identifiable intangible asset consisting of trade names has an indefinite life and is not subject to amortization.

## Pro Forma Results

The following pro forma financial information for the years ended September 30, 2008 and 2007 presents the combined results of operations of ESCO and Doble as if the acquisition had occurred on October 1, 2006. The pro forma financial information for the periods presented excludes the Filtertek business which was sold on November 25, 2007. The combined results of operations have been adjusted for the impact of certain acquisition-related items, including additional amortization of identifiable intangible assets, additional financing expenses and other direct costs. The impact of pro forma adjustments are tax-effected at the expected future consolidated corporate tax rate.

The unaudited pro forma financial information is not intended to represent, or be indicative of, the Company's consolidated results of operations or financial condition that would have been reported had the acquisition been completed as of the beginning of each of the periods presented. This information is provided for illustrative purposes only and is not necessarily indicative of the Company's future consolidated results of operations or financial condition.

(In millions, except per share data)

(Unaudited)			
Pro Forma Results		FY 2008	FY 2007
Net sales		\$ 640.1	503.6
Net earnings from continuing operations		\$ 46.9	30.5
Net earnings per share			
Basic		\$ 1.82	1.18
Diluted		\$ 1.79	1.15

## LDIC

On July 31, 2008, the Company acquired the capital stock of LDIC GmbH and LDIC AG (collectively "LDIC") for a purchase price of approximately \$13 million, net of cash acquired. LDIC, with operations in Germany and Switzerland, is a manufacturer of partial discharge diagnostic testing instruments and systems serving the international electric utility industry with annual revenues of approximately \$10 million. The operating results for LDIC since the date of acquisition are included within Doble in the USG segment. The acquisition serves to broaden the portfolio of intelligent diagnostic products and will expand the distribution channels for Doble's products and services throughout Europe. In connection with the acquisition of LDIC, the Company transferred \$6.8 million of cash (€5 million) into an escrow account to be earned by the sellers if future target revenues are achieved. The \$6.8 million is classified as restricted cash and is included in Other Assets on the Company's consolidated balance sheet at September 30, 2008. The Company recorded approximately \$8 million of goodwill as a result of the transaction and \$2.5 million of trade names. In addition, the Company recorded \$1.5 million of amortizable identifiable intangible assets consisting of customer relationships which are being amortized on a straight-line basis over seven years.

## FY 07 – Wintec

On August 10, 2007, the Company acquired the assets and certain liabilities of Wintec, LLC (Wintec) for a purchase price of \$6 million. Wintec is engaged in the design, manufacture and sale of metallic elements, filters, and strainers for pneumatic/hydraulic applications and surface tension devices for propellant management fluid control with annual revenues of approximately \$3.5 million. The assets acquired consist of accounts receivable, inventory and property, plant and equipment. The Company recorded approximately \$5 million of goodwill in connection with the transaction. In addition, the Company recorded \$0.2 million of identifiable intangible assets consisting of customer contracts and order backlog which are being amortized on a straight-line basis over periods ranging from nine months to seventeen months. The operating results for Wintec, since the date of acquisition, are included within VACCO in the Filtration segment.

## Notes to Consolidated Financial Statements

### FY 06 — Aclara RF

On February 1, 2006, the Company acquired the capital stock of Aclara RF (formerly Hexagram, Inc.) for a purchase price of approximately \$66 million. The acquisition agreement also provides for contingent consideration of up to \$6.25 million over the five-year period following the acquisition if Aclara RF exceeds certain sales targets. The Company paid \$1.3 million of contingent consideration in both 2008 and 2007. Aclara RF is a radio-frequency (RF) fixed network AMI company headquartered in Cleveland, Ohio. Aclara RF broadens the Company's served market and provides an RF based AMI system serving primarily electric, gas and water utilities. The operating results for Aclara RF, since the date of acquisition, are included within the USG segment. The Company recorded \$6.6 million of amortizable identifiable intangible assets consisting primarily of patents and proprietary know-how, customer contracts, and order backlog which are being amortized on a straight-line basis over periods ranging from six months to seven years.

### FY 06 — Aclara Software

On November 29, 2005, the Company acquired Aclara Software (formerly Nexus Energy Software, Inc.) through an all cash for shares merger transaction for approximately \$29 million in cash plus contingent cash consideration over the four-year period following the merger if Aclara Software exceeds certain sales targets. Aclara Software is a software company headquartered in Wellesley, Massachusetts. Aclara Software broadens the Company's served market and provides software solutions that allow utilities to fully utilize the information produced by the Company's AMI systems. The operating results for Aclara Software, since the date of acquisition, are included within the USG segment. The Company recorded \$2.7 million of identifiable intangible assets consisting primarily of customer contracts and order backlog which are being amortized on a straight-line basis over periods ranging from one year to three years. In connection with the acquisition of Aclara Software, the Company acquired approximately \$13 million of net operating loss carryforward that will expire between 2017 and 2025 and is subject to a Section 382 limitation.

All of the Company's acquisitions have been accounted for using the purchase method of accounting and accordingly, the respective purchase prices were allocated to the assets (including intangible assets) acquired and liabilities assumed based on estimated fair values at the date of acquisition. The financial results from these acquisitions have been included in the Company's financial statements from the date of acquisition. Pro forma financial information related to the Company's acquisitions, excluding Doble, was not presented as it was not significant to the Company's results of operations. None of the goodwill recorded as part of the acquisitions mentioned above is expected to be deductible for U.S. Federal or state income tax purposes.

## 4. Goodwill and Other Intangible Assets

Included on the Company's Consolidated Balance Sheets at September 30, 2008 and 2007 are the following intangible assets gross carrying amounts and accumulated amortization:

(Dollars in millions)	2008	2007
Goodwill	\$ 328.9	124.8
Intangible assets with determinable lives:		
Patents		
Gross carrying amount	\$ 13.6	13.5
Less: accumulated amortization	12.8	12.5
Net	\$ 0.8	1.0
Capitalized software		
Gross carrying amount	\$ 91.2	79.1
Less: accumulated amortization	27.4	13.7
Net	\$ 63.8	65.4
Customer Relationships		
Gross carrying amount	\$ 54.0	—
Less: accumulated amortization	2.2	—
Net	\$ 51.8	—
Other		
Gross carrying amount	\$ 10.0	9.9
Less: accumulated amortization	6.5	5.1
Net	\$ 3.5	4.8
Intangible assets with indeterminable lives:		
Trade names	\$ 118.3	3.5

The Company performed its annual evaluation of goodwill and intangible assets for impairment during the fourth quarter of fiscal 2008 and concluded no impairment existed at September 30, 2008.

The changes in the carrying amount of goodwill attributable to each business segment for the years ended September 30, 2008 and 2007 are as follows:

(Dollars in millions)	USG	Test	Filtration
Balance as of September 30, 2006	\$ 74.6	29.1	39.8
Acquisitions	0.8	—	5.2
Balance as of September 30, 2007	75.4	29.1	45.0
Divestiture	—	—	(24.7)
Acquisitions	203.7	0.4	—
Balance as of September 30, 2008	\$ 279.1	29.5	20.3

## Notes to Consolidated Financial Statements

Amortization expense related to intangible assets with determinable lives was \$17.6 million, \$10.2 million and \$6.4 million in 2008, 2007 and 2006, respectively. The increase in amortization expense in 2008 as compared to the prior year was mainly due to the Company's TWACS NG software and the purchase accounting identifiable assets. The Company recorded \$11.0 million and \$6.2 million of amortization expense related to Aclara PLS's TWACS NG software in 2008 and 2007, respectively. Patents are amortized over the life of the patents, generally 17 years. Capitalized software is amortized over the estimated useful life of the software, generally three to seven years. Estimated intangible assets amortization for fiscal year 2009 is approximately \$19 million. Intangible asset amortization for fiscal years 2010 through 2013 is estimated at approximately \$20 million declining to \$12 million per year. The decrease in intangible asset amortization is related to the TWACS NG software.

### 5. Accounts Receivable

Accounts receivable, net of the allowance for doubtful accounts, consist of the following at September 30, 2008 and 2007:

(Dollars in thousands)	2008	2007
Commercial	\$126,860	80,039
U.S. Government and prime contractors	8,576	5,280
<b>Total</b>	<b>\$135,436</b>	<b>85,319</b>

### 6. Inventories

Inventories consist of the following at September 30, 2008 and 2007:

(Dollars in thousands)	2008	2007
Finished goods	\$20,590	17,653
Work in process — including long-term contracts	15,736	13,892
Raw materials	30,636	24,340
<b>Total</b>	<b>\$66,962</b>	<b>55,885</b>

### 7. Property, Plant and Equipment

Depreciation expense of property, plant and equipment from continuing operations for the years ended September 30, 2008, 2007 and 2006 was \$10.0 million, \$6.3 million and \$5.3 million, respectively.

The Company leases certain real property, equipment and machinery under noncancelable operating leases. Rental expense under these operating leases for the years ended September 30, 2008, 2007 and 2006 was \$7.8 million, \$6.6 million and \$5.5 million, respectively.

Future aggregate minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2008 are:

(Dollars in thousands)	
Years ending September 30:	
2009	\$ 7,305
2010	5,621
2011	4,313
2012	3,863
2013 and thereafter	4,067
<b>Total</b>	<b>\$25,169</b>

### 8. Income Tax Expense

Total income tax expense for the years ended September 30, 2008, 2007 and 2006 was allocated as follows:

(Dollars in thousands)	2008	2007	2006
Income tax expense from continuing operations	\$23,613	7,633	15,220
Discontinued operations	482	1,382	2,402
<b>Total income tax expense</b>	<b>\$24,095</b>	<b>9,015</b>	<b>17,622</b>

The components of income from continuing operations before income taxes consisted of the following for the years ended September 30:

(Dollars in thousands)	2008	2007	2006
United States	\$66,460	33,922	40,204
Foreign	4,555	4,117	4,181
<b>Total income before income taxes</b>	<b>\$71,015</b>	<b>38,039</b>	<b>44,385</b>

The principal components of income tax expense from continuing operations for the years ended September 30, 2008, 2007 and 2006 consist of:

(Dollars in thousands)	2008	2007	2006
<b>Federal</b>			
Current (including Alternative Minimum Tax)	\$737	(6,530)	1,607
Deferred	16,457	10,342	10,384
<b>State and local:</b>			
Current	2,807	919	2,454
Deferred	2,113	1,967	(451)
<b>Foreign:</b>			
Current	1,234	1,106	1,220
Deferred	265	(171)	6
<b>Total</b>	<b>\$23,613</b>	<b>7,633</b>	<b>15,220</b>





## Notes to Consolidated Financial Statements

The actual income tax expense from continuing operations for the years ended September 30, 2008, 2007 and 2006 differs from the expected tax expense for those years (computed by applying the U.S. Federal corporate statutory rate) as follows:

	2008	2007	2006
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local, net of Federal benefits	2.5	2.8	2.4
Foreign — Puerto Rico	—	(0.7)	0.4
Foreign — Other	(0.1)	(0.6)	(0.6)
Foreign — Tax Credit	(0.2)	—	—
Foreign earnings repatriation	—	—	4.4
Research credit	(1.4)	(11.6)	(5.5)
Export Incentive	(2.2)	—	—
Domestic Production Deduction	(1.1)	—	—
Share-Based Compensation	0.7	3.7	1.3
Change in tax contingencies	—	(5.9)	(3.1)
Change in FIN 48 Liability	(0.3)	—	—
Release of valuation allowance	—	(2.0)	—
Other, net	0.4	(0.6)	—
<b>Effective income tax rate</b>	<b>33.3%</b>	<b>20.1%</b>	<b>34.3%</b>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 2008 and 2007 are presented below.

(Dollars in thousands)	2008	2007
<b>Deferred tax assets:</b>		
Inventories, long-term contract accounting, contract cost reserves and others	\$ 1,964	3,828
Pension and other postretirement benefits	4,393	3,339
Net operating loss carryforward — domestic	1,429	12,311
Net operating loss carryforward — foreign	3,950	3,092
Alternative Minimum Tax credit carryforward	—	779
Capital loss carryforward	8,297	7,888
Other compensation-related costs and other cost accruals	10,830	11,285
Research credit carryforward	10,020	13,979
<b>Total deferred tax assets</b>	<b>40,883</b>	<b>56,501</b>
<b>Deferred tax liabilities:</b>		
Plant and equipment, depreciation methods, acquisition asset allocations, and other	(96,783)	(38,780)
Net deferred tax (liability) asset before valuation allowance	(55,900)	17,721
Less valuation allowance	(12,247)	(10,979)
<b>Net deferred tax (liabilities) assets</b>	<b>\$(68,147)</b>	<b>6,742</b>

At September 30, 2008, the Company has established a valuation allowance of \$8.3 million against the capital loss carryforward generated in 2004 and 2008, as such loss carryforward may not be realized in future periods. In addition, the Company has established a valuation allowance against certain net operating loss (NOL) carryforwards in foreign jurisdictions which may not be realized in future periods. The valuation allowance established against the foreign NOL carryforwards was \$3.9 million and \$3.1 million at September 30, 2008 and 2007, respectively. The Company classifies its valuation allowance related to deferred taxes on a pro rata basis.

The Company expects the net research tax credits related to fiscal year 2008 to be approximately \$0.9 million. On October 3, 2008, the President signed into law the Tax Extenders and Alternative Minimum Tax Relief Act of 2008. Accordingly, \$0.7 million of fiscal year 2008 research tax credit benefit is expected to be recognized as a discrete item in the first quarter of 2009. In fiscal 2008, the Company recorded \$1.0 million of research credits. The expiration of the research credits is between 2020 and 2028. The Company anticipates being able to utilize the research credits to reduce future Federal and state income tax cash payments.

No deferred taxes have been provided on the accumulated unremitted earnings of the Company's foreign subsidiaries as of September 30, 2008. The Company's intention is to reinvest these earnings indefinitely. In the event these foreign entities' earnings were distributed, it is estimated that U.S. taxes, net of available foreign tax credits, of approximately \$3.3 million would be due, which would correspondingly reduce the Company's net earnings.

Effective October 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. The adoption of FIN 48 had the following impact on the Company's financial statements: decreased current assets by \$1.5 million, decreased current liabilities by \$0.3 million, and decreased long-term liabilities by \$1.2 million. As of October 1, 2007, the Company had \$6.7 million of unrecognized tax benefits of which \$5.9 million, if recognized, would affect the Company's effective tax rate. The Company made no adjustments to retained earnings related to the adoption. As of September 30, 2008, the Company had \$13.0 million of unrecognized benefits (see table below), of which \$10.8 million of the unrecognized tax benefits, net of Federal benefit, if recognized, would affect the Company's effective tax rate with the remaining amount impacting goodwill.

A reconciliation of the Company's unrecognized tax benefits for the year ended September 30, 2008 is presented in the table below:

(Dollars in millions)	
Balance as of October 1, 2007	\$ 6.7
Increases related to prior year tax positions	6.3
Decreases related to prior year tax positions	(0.1)
Increases related to current year tax positions	0.3
Lapse of statute of limitations	(0.2)
<b>Balance as of September 30, 2008</b>	<b>\$ 13.0</b>

The Company anticipates a \$0.3 million reduction in the amount of unrecognized tax benefits in the next twelve months as a result of a lapse of the applicable statute of limitations. The Company's policy

## Notes to Consolidated Financial Statements

is to include interest related to unrecognized tax benefits in income tax expense and penalties in operating expense. As of September 30, 2008, the Company had accrued interest related to uncertain tax positions of \$0.2 million, net of Federal income tax benefit, on its consolidated balance sheet. No penalties have been accrued.

The principal jurisdictions for which the Company files income tax returns are U.S. Federal and the various city, state, and international locations where the Company has operations. Due to the Company's available net operating loss, the 1995 through 2007 U.S. Federal tax years remain subject to income tax examinations. During the fourth quarter of 2008, the Internal Revenue Service (IRS) commenced examination of the Company's U.S. Federal income tax return for the period ended September 30, 2003 through September 30, 2006. It is reasonably possible that the fiscal years 2003-2006 U.S. audit cycle will be completed during the next twelve months, which could result in a decrease in the balance of unrecognized tax benefits. However, no adjustments have been proposed by the IRS and therefore, an estimate of a range cannot be made at this time. Various state tax years from 2003 through 2007 remain subject to income tax examinations. The Company is subject to income tax in many jurisdictions outside the United States, none of which are individually material to the Company's financial position, statements of cash flows, or results of operations.

### 9. Debt

Debt consists of the following at September 30, 2008 and 2007:

(Dollars in thousands)	2008	2007
Revolving credit facility, including current portion	\$233,650	—
Current portion of long-term debt	(50,000)	—
Total long-term debt, less current portion	\$183,650	—

On November 30, 2007, in conjunction with the acquisition of Doble, the Company entered into a new \$330 million five-year revolving credit facility with a \$50 million increase option. This facility replaced the Company's \$100 million credit facility. The credit facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of sixteen banks, led by National City Bank as agent, with a maturity of November 30, 2012. At September 30, 2008, the Company had approximately \$90 million available to borrow under the credit facility, plus a \$50 million increase option, in addition to \$28.7 million cash on hand. At September 30, 2008, the Company had outstanding letters of credit of \$6.6 million. The Company classified \$50 million as the current portion on long-term debt as of September 30, 2008, as the Company intends to repay this amount within the next twelve months.

The credit facility requires, as determined by certain financial ratios, a facility fee ranging from 15 to 25 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the London Interbank Offered Rate (LIBOR) or based on the prime rate, at the Company's election. The facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility include a leverage ratio and an interest coverage ratio. During 2008 and 2007, the maximum aggregate short-term borrowings at any month-end were \$274.7 million and \$9 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were \$249.8 million and \$1.7 million, respectively; and the weighted average interest rates were 4.75%, 6.24%, and 5.25% for 2008, 2007 and 2006, respectively. The letters of credit issued and outstanding under the credit facility totaled \$6.6 million and \$0.8 million at September 30, 2008, and 2007, respectively.

### 10. Capital Stock

The 29,465,154 and 29,159,629 common shares as presented in the accompanying Consolidated Balance Sheets at September 30, 2008 and 2007 represent the actual number of shares issued at the respective dates. The Company held 3,375,106 and 3,416,966 common shares in treasury at September 30, 2008 and 2007, respectively.

In August 2008, the Company's Board of Directors authorized an open market common stock repurchase program of the Company's shares in a value not to exceed \$30 million, subject to market conditions and other factors which covers the period through September 30, 2009. There were no stock repurchases during 2008. The Company repurchased \$10 million or 265,000 shares during 2007. There were no stock repurchases during 2006.

### 11. Share-Based Compensation

The Company provides compensation benefits to certain key employees under several share-based plans providing for employee stock options and/or performance-accelerated restricted shares (restricted shares), and to non-employee directors under a non-employee directors compensation plan. During fiscal 2004, the Board of Directors authorized and the shareholders approved, the 2004 Incentive Compensation Plan, which states, in part, that on February 5, 2004, there shall be 2,000,000 shares added to the authorized shares allocated for the grant of stock options, stock appreciation rights, performance-accelerated restricted stock, or other full value awards. Of these, shares up to 600,000 may be utilized for performance-accelerated restricted stock or other full value awards. At September 30, 2008, the maximum number of full value shares available for issue under the 2004 Incentive Compensation Plan and the 2001 Stock Incentive Plan was 600,000 and 187,167 shares, respectively.

## Notes to Consolidated Financial Statements

### Stock Option Plans

The Company's stock option awards are generally subject to graded vesting over a three-year service period. All outstanding options were granted at prices equal to fair market value at the date of grant. The options granted prior to September 30, 2003 have a ten-year contractual life from date of issuance, expiring in various periods through 2013. Beginning in fiscal 2004, the options granted have a five-year contractual life from date of issuance. The Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award.

The fair value of each option award is estimated as of the date of grant using the Black-Scholes option pricing model. The weighted average assumptions for the periods indicated are noted below. Expected volatility is based on historical volatility of ESCO's stock calculated over the expected term of the option. In fiscal year 2008, the Company utilized historical company data to develop its expected term assumption. For fiscal years 2007 and 2006, the expected term was calculated in accordance with Staff Accounting Bulletin No. 107 using the simplified method for "plain-vanilla" options. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2008, 2007 and 2006, respectively: expected dividend yield of 0% in all periods; expected volatility of 34.8%, 27.3% and 28.0%; risk-free interest rate of 2.9%, 4.6% and 4.6%; and expected term of 3.8 years, 3.50 years and 3.50 years.

Information regarding stock options awarded under the option plans is as follows:

	FY2008		FY2007		FY2006	
	Shares	Estimated Weighted Avg. Price	Shares	Estimated Weighted Avg. Price	Shares	Estimated Weighted Avg. Price
October 1,	<b>1,558,941</b>	<b>\$ 30.35</b>	1,387,348	\$ 26.60	1,324,548	\$ 20.48
Granted	<b>16,000</b>	<b>\$ 35.82</b>	296,280	\$ 45.71	328,080	\$ 44.63
Exercised	<b>(295,339)</b>	<b>\$ 24.83</b>	(101,683)	\$ 21.56	(232,371)	\$ 15.95
Cancelled	<b>(140,401)</b>	<b>\$ 42.22</b>	(23,004)	\$ 40.59	(32,909)	\$ 35.77
September 30,	<b>1,139,201</b>	<b>\$ 30.40</b>	1,558,941	\$ 30.35	1,387,348	\$ 26.60
At September 30,						
Reserved for future grant	<b>1,010,014</b>		878,238		1,146,741	
Exercisable	<b>884,812</b>	<b>\$ 26.25</b>	951,066	\$ 21.99	753,415	\$ 16.46

The aggregate intrinsic value of options exercised during 2008, 2007 and 2006 was \$5.5 million, \$2.4 million and \$7.9 million, respectively. The aggregate intrinsic value of stock options outstanding and exercisable at September 30, 2008 was \$20.5 million. The weighted-average contractual life of stock options outstanding at September 30, 2008 was 2.3 years. The weighted-average fair value of stock options granted in 2008, 2007, and 2006 was \$10.98, \$12.25, and \$12.17, respectively.

Summary information regarding stock options outstanding at September 30, 2008 is presented below:

Range of Exercise Prices	Options Outstanding		
	Number Outstanding at Sept. 30, 2008	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 5.39 - \$10.72	167,076	1.2 years	\$ 6.78
\$12.64 - \$14.52	218,714	3.5 years	\$ 13.75
\$17.29 - \$32.32	78,857	1.3 years	\$ 23.04
\$35.18 - \$42.10	193,158	1.3 years	\$ 35.42
\$42.99 - \$54.88	481,396	2.6 years	\$ 45.35
	1,139,201	2.3 years	\$ 30.40

## Notes to Consolidated Financial Statements

Range of Exercise Prices	Exercisable Options Outstanding	
	Number Exercisable at Sept. 30, 2008	Weighted Average Exercise Price
\$ 5.39 - \$10.72	167,076	\$ 6.78
\$12.64 - \$14.52	218,714	\$13.75
\$17.29 - \$32.32	78,857	\$23.04
\$35.18 - \$54.88	420,165	\$41.11
	884,812	\$26.25

### Performance-accelerated Restricted Share Awards

The performance-accelerated restricted shares (restricted shares) have a five-year term with accelerated vesting if certain performance targets are achieved. In these cases, if it is probable that the performance condition will be met, the Company recognizes compensation cost on a straight-line basis over the shorter performance period; otherwise, it will recognize compensation cost over the longer service period. Compensation cost for the majority of the outstanding restricted share awards is being recognized over the longer performance period as it is not probable the performance condition will be met. The restricted share award grants were valued at the stock price on the date of grant. Pretax compensation expense related to the restricted share awards was \$1.2 million, \$1.5 million and \$1.5 million for fiscal years ended September 30, 2008, 2007 and 2006, respectively.

The following summary presents information regarding outstanding restricted share awards as of September 30, 2008 and changes during the period then ended:

	Shares	Weighted Avg. Price
Nonvested at October 1, 2007	164,060	\$ 41.77
Granted	94,335	\$ 37.08
Vested	(44,500)	\$ 34.80
Cancelled	(11,000)	\$ 41.32
Nonvested at September 30, 2008	202,895	\$ 41.15

### Non-Employee Directors Plan

The non-employee directors compensation plan provides to each non-employee director a retainer of 800 common shares per quarter. Compensation expense related to the non-employee director grants was \$0.7 million, \$0.8 million and \$1.0 million for the years ended September 30, 2008, 2007 and 2006, respectively.

The total share-based compensation cost that has been recognized in results of operations and included within SG&A (continuing operations) was \$4.0 million, \$4.8 million and \$4.3 million for the years ended September 30, 2008, 2007 and 2006, respectively. The total income tax benefit recognized in results of operations for share-based compensation arrangements was \$1.1 million, \$1.2 million and \$1.2 million for the years ended September 30, 2008, 2007 and 2006, respectively. The Company has elected to use tax law ordering rules when calculating the income tax benefit associated with its share-based payment arrangements. In addition, the Company elected to use the simplified method of calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R)-3, "Transition Election related to Accounting for the Tax Effects of Share-Based Payment Awards." As of September 30, 2008, there was \$9.6 million of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.4 years.

### 12. Retirement and Other Benefit Plans

Substantially all domestic employees are covered by a defined contribution pension plan maintained by the Company. Effective December 31, 2003, the Company's defined benefit plan was frozen and no additional benefits will be accrued after that date. As a result, the accumulated benefit obligation and projected benefit obligation are equal. These frozen retirement income benefits are provided to employees under defined benefit pay-related and flat-dollar plans, which are noncontributory. In conjunction with the acquisition of Doble, the Company assumed responsibility for their defined benefit plan which it intends to freeze effective December 31, 2008 and no additional benefits will be accrued after that date. The annual contributions to the defined benefit retirement plans equal or exceed the minimum funding requirements of the Employee Retirement Income Security Act or applicable local regulations. 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. Effective December 31, 2004, no new retirees are eligible for life insurance benefits.

The Company adopted Statement of Financial Accounting Standards No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158) as of September 30, 2007. SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. As a result of adopting the provisions of SFAS 158, the Company recorded a pretax credit of \$0.9 million to accumulated other comprehensive income in equity as of September 30, 2007.

The Company uses a measurement date of September 30 for its pension and other postretirement benefit plans. The Company has an accrued benefit liability of \$0.6 million and \$0.7 million at September 30, 2008 and 2007, respectively, related to its other

## Notes to Consolidated Financial Statements

postretirement benefit obligations. All other information related to its postretirement benefit plans is not considered material to the Company's results of operations or financial condition.

The following tables provide a reconciliation of the changes in the pension plans and fair value of assets over the two-year period ended September 30, 2008, and a statement of the funded status as of September 30, 2008 and 2007:

(Dollars in millions)	Pension Benefits	
	2008	2007
<b>Reconciliation of benefit obligation</b>		
Net benefit obligation at beginning of year	\$ 46.2	48.2
Service cost	0.6	—
Interest cost	3.8	2.7
Actuarial (gain) loss	(7.1)	(2.9)
Acquisitions	18.8	—
Gross benefits paid	(2.6)	(1.8)
Net benefit obligation at end of year	\$ 59.7	46.2

(Dollars in millions)	Pension Benefits	
	2008	2007
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets at beginning of year	\$ 38.2	35.1
Actual return on plan assets	(9.6)	4.7
Employer contributions	0.8	0.2
Gross benefits paid	(2.6)	(1.8)
Acquisitions	21.2	—
Fair value of plan assets at end of year	\$ 48.0	38.2

(Dollars in millions)	Pension Benefits	
	2008	2007
<b>Funded Status</b>		
Funded status at end of year	\$ (11.7)	(8.0)
Unrecognized prior service cost	—	—
Unrecognized net actuarial (gain) loss	—	—
Accrued benefit cost	(11.7)	(8.0)
Amounts recognized in the Balance Sheet consist of:		
Noncurrent asset	1.6	—
Current liability	(1.3)	(0.2)
Noncurrent liability	(11.9)	(7.8)
Accumulated other comprehensive income (before tax effect)	11.7	5.1
Amounts recognized in Accumulated Other Comprehensive Income consist of:		
Net actuarial loss	11.6	5.0
Prior service cost	0.1	0.1
Accumulated Other Comprehensive Income	\$ 11.7	5.1

The following table provides the components of net periodic benefit cost for the plans for the years ended September 30, 2008, 2007 and 2006:

(Dollars in millions)	Pension Benefits		
	2008	2007	2006
Service cost	\$ 0.6	—	—
Interest cost	3.8	2.7	2.6
Expected return on plan assets	(4.3)	(2.8)	(2.7)
Net actuarial (gain) loss	0.2	0.4	0.4
Net periodic benefit cost	0.3	0.3	0.3
Defined contribution plans	4.2	3.6	2.9
Total	\$ 4.5	3.9	3.2

The discount rate used in measuring the Company's pension obligations was developed by matching yields of actual high-quality corporate bonds to expected future pension plan cash flows (benefit payments). Over 400 Aa-rated, non-callable bonds with a wide range of maturities were used in the analysis. After using the bond yields to determine the present value of the plan cash flows, a single representative rate that resulted in the same present value was developed. The expected long-term rate of return on plan assets assumption was determined by reviewing the actual investment return of the plans since inception and evaluating those returns in relation to expectations of various investment organizations to determine whether long-term future returns are expected to differ significantly from the past.

The following weighted-average assumptions were used to determine the net periodic benefit cost for the pension plans:

	2008	2007	2006
Discount rate	6.25%	5.75%	5.25%
Rate of increase in compensation levels	N/A	N/A	N/A
Expected long-term rate of return on assets	8.25%	8.25%	8.25%

The following weighted-average assumptions were used to determine the net periodic benefit obligations for the pension plans:

	2008	2007
Discount rate	7.25%	6.25%
Rate of increase in compensation levels	N/A	N/A

The assumed rate of increase in compensation levels is not applicable in 2008, 2007 and 2006 as the plan was frozen as of December 31, 2003.



## Notes to Consolidated Financial Statements

The asset allocation for the Company's pension plans at the end of 2008 and 2007, the Company's acceptable range and the target allocation for 2009, by asset category, follows:

Asset Category	Target Allocation 2009	Acceptable Range	Percentage of Plan Assets at Year-end	
			2008	2007
Equity securities	60%	50-70%	62%	69%
Fixed income	40%	30-50%	36%	29%
Cash/cash equivalents	0%	0-5%	2%	2%

The Company's pension plan assets are managed by outside investment managers and assets are rebalanced when the target ranges are exceeded. Pension plan assets consist principally of marketable securities including common stocks, bonds, and interest-bearing deposits. The Company's investment strategy with respect to pension assets is to achieve a total rate of return (income and capital appreciation) that is sufficient to accomplish the purpose of providing retirement benefits to all eligible and future retirees of the pension plan. The Company regularly monitors performance and compliance with investment guidelines.

## EXPECTED CASH FLOWS

Information about the expected cash flows for the pension and other postretirement benefit plans follows:

(Dollars in millions)	Pension Benefits	Other Benefits
Expected Employer Contributions — 2009	\$ 5.0	0.1
Expected Benefit Payments		
2009	4.4	0.1
2010	3.4	0.1
2011	3.6	0.1
2012	3.9	0.1
2013	4.5	0.1
2014-2018	\$ 24.5	0.3

## 13. Derivative Financial Instruments

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. The Company is exposed to market risk related to changes in interest rates and selectively uses derivative financial instruments, including forward contracts and swaps, to manage these risks. During 2008, the Company entered into a two-year amortizing interest rate swap to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. The swap notional amount for the first year is \$175 million amortizing to \$100 million in the second year. All derivative instruments are reported on the balance sheet at fair value. The derivative instrument is designated as a cash flow hedge and the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. Including the impact of interest rate swaps outstanding, the interest rates on approximately 75% of the Company's total borrowings were effectively fixed as of September 30, 2008. The following is a summary of the notional transaction amounts and fair values for the Company's outstanding derivative financial instruments by risk category and instrument type, as of September 30, 2008.

(Dollars in thousands)	Notional Amount	Avg Rec Rate	Average Pay Rate	Fair Value
Interest rate swaps	\$175,000	2.82%	3.99%	\$ (1,347)

## 14. Other Financial Data

Items charged to operations during the years ended September 30, 2008, 2007 and 2006 included the following:

(Dollars in thousands)	2008	2007	2006
Salaries and wages (including fringes)	\$146,448	113,924	95,839
Maintenance and repairs	3,359	3,053	2,686
Research and development (R&D) costs:			
Company-sponsored	32,955	23,471	18,329
Customer-sponsored	5,293	3,718	2,522
Total R&D	\$ 38,248	27,189	20,851
Other engineering costs	10,537	9,082	9,069
Total R&D and other engineering costs	\$ 48,785	36,271	29,920
As a % of net sales	7.8%	8.2%	7.8%

Customer-sponsored R&D is defined in Note 1(O) of Notes to Consolidated Financial Statements.

A reconciliation of the changes in accrued product warranty liability for the years ended September 30, 2008, 2007, and 2006 is as follows:

(Dollars in thousands)	2008	2007	2006
Balance as of October 1	\$ 1,445	1,390	930
Additions charged to expense	3,387	1,769	2,330
Deductions	(1,887)	(1,714)	(1,870)
Balance as of September 30	\$ 2,945	1,445	1,390



## Notes to Consolidated Financial Statements

### 15. Business Segment Information

The Company is organized based on the products and services it offers. Under this organizational structure, the Company has three reporting segments: Utility Solutions Group (USG), Test and Filtration/Fluid Flow (Filtration). In conjunction with the acquisition of Doble in November 2007, the Company changed the name of the Communications segment to the Utility Solutions Group segment. The renaming of this segment more accurately describes the segment's operating activities and strategically aligns the respective operating entities to focus on a single goal of satisfying the expanding AMI, Smart Grid, and other operational requirements of electric, gas and water utilities worldwide. The segment name change was done along with the Company's strategic integration and rebranding of its three AMI related technologies under the unified brand name Aclara™, and renaming the AMI businesses as follows: Distribution Control Systems, Inc. was renamed Aclara Power-Line Systems Inc.; Hexagram, Inc. was renamed Aclara RF Systems Inc.; and Nexus Energy Software, Inc. was renamed Aclara Software Inc. In addition to the AMI businesses operating under the Aclara™ brand, the USG also includes Comtrak Technologies, LLC (Comtrak) and Doble. The USG segment is a proven supplier of special purpose fixed network communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. Aclara PLS's Two-Way Automatic Communications System, known as TWACS®, is currently used for automatic meter reading (AMR) and related advanced metering infrastructure (AMI) functions serving over 200 utilities, as well as having load management capabilities. Aclara RF's STAR® system, the premier wireless AMI system, delivers two-way and one-way operation on secure licensed radio frequencies for more than 100 utilities serving electric, gas and water customers. Aclara Software applications add value across the utility enterprise, addressing meter and energy data management, distribution planning and operations, customer service and revenue management. Doble provides high-end, diagnostic test solutions for the electric power delivery industry and is a leading supplier of partial discharge testing instruments used to assess the integrity of high voltage power delivery equipment. Comtrak's SecurVision® product line provides digital video surveillance and security functions for large commercial enterprises and alarm monitoring companies.

Test segment operations represent the EMC Group, consisting primarily of ETS-Lindgren L.P. (ETS) and Lindgren R.F. Enclosures, Inc. (Lindgren). The EMC Group is principally involved in the design and manufacture of EMC test equipment, test chambers, and electromagnetic absorption materials.

The EMC Group also manufactures radio frequency (RF) shielding products and components used by manufacturers of medical equipment, communications systems, electronic products, and shielded rooms for high security data processing and secure communication.

As a result of the divestiture of Filtertek in November 2007, the Company reevaluated the aggregation criteria of its remaining operating units within the Filtration segment. The TekPack business (formerly a division of Filtertek) was not included in the divestiture transaction. Prior to the divestiture of Filtertek, each of the components of the Filtration segment were presented separately due to differing long-term economics. However, as a result of the divestiture of Filtertek, management believes the remaining companies within the Filtration segment now have similar long-term economics and, therefore, will not be presented separately beginning in fiscal 2008. The Filtration segment's operations consist of: PTI Technologies Inc., VACCO Industries and TekPack. PTI and VACCO develop and manufacture a wide range of filtration products and are leading suppliers of filters to the commercial and defense aerospace, satellite and industrial markets.

Accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to the Consolidated Financial Statements.

In accordance with SFAS 131, the Company evaluates the performance of its operating units based on EBIT, which is defined as: Earnings Before Interest and Taxes. Intersegment sales and transfers are not significant. Segment assets consist primarily of customer receivables, inventories, capitalized software and fixed assets directly associated with the production processes of the segment. Segment depreciation and amortization is based upon the direct assets listed above. Information in the tables below is presented on a Continuing Operations basis and excludes Discontinued Operations.

#### NET SALES

(Dollars in millions)

Year ended September 30,

	2008	2007	2006
Utility Solutions	\$ 362.9	197.6	156.2
Test	144.8	141.5	128.6
Filtration	116.1	105.6	97.6
Consolidated totals	\$ 623.8	444.7	382.4

One customer (PG&E) exceeded 10% of net sales in fiscal 2008 with sales of \$110.2 million. No customers exceeded 10% of net sales in 2007 or 2006.

#### EBIT

(Dollars in millions)

Year ended September 30,

	2008	2007	2006
Utility Solutions	\$ 66.3	22.0	28.3
Test	13.9	14.4	15.0
Filtration	21.2	18.4	14.9
Reconciliation to consolidated totals (Corporate)	(20.6)	(17.4)	(14.7)
Consolidated EBIT	80.8	37.4	43.5
Less: interest expense	(9.8)	—	—
Add: interest income	—	0.6	0.9
Earnings before income tax	\$ 71.0	38.0	44.4

## Notes to Consolidated Financial Statements

### IDENTIFIABLE ASSETS

(Dollars in millions)

Year ended September 30,	2008	2007	2006
Utility Solutions	\$ 203.3	151.6	97.9
Test	84.2	72.0	50.3
Filtration	59.7	56.2	58.3
Corporate	580.9	296.3	282.2
Consolidated totals	\$ 928.1	576.1	488.7

Corporate assets consist primarily of goodwill, deferred taxes, acquired intangible assets and cash balances.

### CAPITAL EXPENDITURES

(Dollars in millions)

Year ended September 30,	2008	2007	2006
Utility Solutions	\$ 9.0	7.0	3.4
Test	5.9	4.0	0.7
Filtration	1.6	1.4	1.7
Corporate	0.2	—	—
Consolidated totals	\$ 16.7	12.4	5.8

In addition to the above amounts, the Company incurred expenditures for capitalized software of \$11.0 million, \$30.0 million and \$27.8 million in 2008, 2007 and 2006, respectively.

### DEPRECIATION AND AMORTIZATION

(Dollars in millions)

Year ended September 30,	2008	2007	2006
Utility Solutions	\$ 18.5	10.3	5.0
Test	1.8	1.3	1.3
Filtration	2.8	2.8	2.6
Corporate	4.5	2.0	2.8
Consolidated totals	\$ 27.6	16.4	11.7

### GEOGRAPHIC INFORMATION

#### Net sales

(Dollars in millions)

Year ended September 30,	2008	2007	2006
United States	\$ 492.9	361.7	311.0
Europe	34.4	21.1	16.9
Far East	55.5	38.0	36.1
Other	41.0	24.0	18.4
Consolidated totals	\$ 623.8	444.7	382.4

#### Long-lived assets

(Dollars in millions)

Year ended September 30,	2008	2007	2006
United States	\$ 66.4	45.7	41.6
Europe	3.5	2.0	1.5
Other	2.7	2.5	0.8
Consolidated totals	\$ 72.6	50.2	43.9

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

### 16. Commitments and Contingencies

At September 30, 2008, the Company had \$6.6 million in letters of credit outstanding as guarantees of contract performance. As a normal incidence of the businesses in which the Company is engaged, various claims, charges and litigation are asserted or commenced against the Company. With respect to claims and litigation asserted or commenced against the Company, it is the opinion of Management, that final judgments, if any, which might be rendered against the Company are adequately reserved, covered by insurance, or are not likely to have a material adverse effect on its financial condition or results of operation.

## Notes to Consolidated Financial Statements

### 17. Quarterly Financial Information (Unaudited)

(Dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
<b>2008</b>					
Net sales	\$ 134,957	135,159	157,669	196,032	623,817
Net earnings from continuing operations	7,905	6,082	13,308	20,107	47,402
Net earnings (loss) from discontinued operations	(5,089)	—	—	4,398	(691)
Net earnings	2,816	6,082	13,308	24,505	46,711
<i>Basic earnings (loss) per share:</i>					
Net earnings from continuing operations	0.31	0.24	0.51	0.77	1.83
Net earnings (loss) from discontinued operations	(0.20)	—	—	0.17	(0.03)
Net earnings	0.11	0.24	0.51	0.94	1.80
<i>Diluted earnings (loss) per share:</i>					
Net earnings from continuing operations	0.30	0.23	0.50	0.76	1.80
Net earnings (loss) from discontinued operations	(0.19)	—	—	0.17	(0.02)
Net earnings	\$ 0.11	0.23	0.50	0.93	1.78
<b>2007</b>					
Net sales	\$ 80,587	108,860	115,365	139,892	444,704
Net earnings (loss) from continuing operations	(1,351)	8,953	7,879	14,925	30,406
Net earnings (loss) from discontinued operations	(30)	665	975	1,697	3,307
Net earnings (loss)	(1,381)	9,618	8,854	16,622	33,713
<i>Basic earnings (loss) per share:</i>					
Net earnings (loss) from continuing operations	(0.05)	0.35	0.30	0.58	1.17
Net earnings from discontinued operations	—	0.02	0.04	0.07	0.13
Net earnings (loss)	(0.05)	0.37	0.34	0.65	1.30
<i>Diluted earnings (loss) per share:</i>					
Net earnings (loss) from continuing operations	(0.05)	0.34	0.29	0.57	1.15
Net earnings from discontinued operations	—	0.02	0.04	0.07	0.13
Net earnings (loss)	\$ (0.05)	0.36	0.33	0.64	1.28

See Notes 2 and 3 of Notes to Consolidated Financial Statements for discussion of divestiture and acquisition activity.

During the fourth quarter of 2008, the Company reduced its expected tax expense by \$4.6 million on the sale of Filtrertek upon receipt of the final purchase price allocation.

During 2007, the Company determined that certain tax accounts had not been accurately recorded in the financial statements for fiscal years 2001 to 2006. The effect in any individual year was not material to the Company's results of operations, financial position, or cash flows. The Company recorded \$1.3 million as a cumulative credit adjustment to tax expense to correct previously recorded tax accounts during the fourth quarter of 2007.

## Management's Report on Internal Control Over Financial Reporting

The Company's Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Because of its inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements due to the possibility that a control can be circumvented or overridden or that misstatements due to error or fraud may occur that are not detected. Also, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2008 using criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company maintained effective internal control over financial reporting as of September 30, 2008 based on these criteria.

The Company acquired Doble Engineering Company (Doble) on November 30, 2007. As permitted by SEC guidance, Management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2008, Doble's internal control over financial reporting. Total assets related to Doble as of September 30, 2008 of \$52.2 million and revenues for the ten-month period subsequent to the acquisition (November 30, 2007 to September 30, 2008) of \$74.3 million were included in the Consolidated Financial Statements of the Company as of and for the year ended September 30, 2008.

Our internal control over financial reporting as of September 30, 2008, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in the report which is included herein.



Victor L. Richey  
Chairman, Chief Executive Officer  
and President



Gary E. Muenster  
Executive Vice President,  
and Chief Financial Officer

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
ESCO Technologies Inc.:

We have audited the accompanying consolidated balance sheets of ESCO Technologies Inc. and subsidiaries (the Company) as of September 30, 2008 and 2007, 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, 2008. We also have audited the Company's internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these Consolidated Financial Statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these Consolidated Financial Statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the Consolidated Financial Statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Consolidated Financial Statements referred to previously present fairly, in all material respects, the financial position of ESCO Technologies Inc. and subsidiaries as of September 30, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, ESCO Technologies Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired Doble Engineering Company (Doble) on November 30, 2007, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2008, Doble's internal control over financial reporting. Total assets related to Doble as of September 30, 2008 of \$52.2 million and revenues for the ten-month period subsequent to the acquisition (November 30, 2007 to September 30, 2008) of \$74.3 million were included in the Consolidated Financial Statements of the Company as of and for the year ended September 30, 2008. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Doble.

As discussed in Note 8 to the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standard No. 109*, effective October 1, 2007. As discussed in Note 12 to the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2007. Additionally, as discussed in Note 11 to the Consolidated Financial Statements, the Company adopted SFAS No. 123(R), *Share-Based Payment*, effective October 1, 2005.

**KPMG LLP**

St. Louis, Missouri  
December 1, 2008

## Five-Year Financial Summary

(Dollars in millions, except per share amounts)

	2008	2007	2006	2005	2004
For years ended September 30:					
Net sales	\$ 623.8	444.7	382.4	350.4	342.1
Net earnings from continuing operations	47.4	30.4	29.2	38.4	35.1
Net earnings (loss) from discontinued operations	(0.7)	3.3	2.1	5.1	0.6
Net earnings (loss)	46.7	33.7	31.3	43.5	35.7
Earnings (loss) per share:					
Basic:					
Continuing operations	\$ 1.83	1.17	1.14	1.51	1.36
Discontinued operations	(0.03)	0.13	0.08	0.20	0.02
Net earnings (loss)	\$ 1.80	1.30	1.22	1.71	1.38
Diluted:					
Continuing operations	\$ 1.80	1.15	1.11	1.46	1.32
Discontinued operations	(0.02)	0.13	0.08	0.20	0.02
Net earnings (loss)	\$ 1.78	1.28	1.19	1.66	1.34
As of September 30:					
Working capital from continuing operations	102.0	122.5	109.9	180.9	165.2
Total assets	928.1	576.1	488.7	423.8	402.4
Total debt	233.7	—	—	—	0.4
Shareholders' equity	\$ 468.2	415.5	376.4	331.0	307.6

See Notes 2 and 3 of Notes to Consolidated Financial Statements for discussion of divestiture and acquisition activity.

## Common Stock Market Price

ESCO's common stock and associated preferred stock purchase rights (subsequently referred to as common stock) are listed on the New York Stock Exchange under the symbol "ESE." The following table summarizes the high and low prices of the common stock for each quarter of fiscal 2008 and 2007.

Quarter	2008		2007	
	High	Low	High	Low
First	\$ 41.86	32.64	\$ 49.28	41.88
Second	43.56	32.65	49.20	40.67
Third	52.11	38.72	52.41	34.73
Fourth	54.06	38.85	43.50	29.63

ESCO historically has not paid cash dividends on its common stock. Management continues to evaluate its cash dividend policy. There are no current plans to initiate a dividend.



## **Shareholders' Summary**

### **SHAREHOLDERS' ANNUAL MEETING**

The Annual Meeting of the Shareholders of ESCO Technologies Inc. will be held at 9:30 a.m. Thursday, February 5, 2009, at the Company's Corporate Headquarters, 9900A Clayton Road, St. Louis, Missouri 63124. Notice of the meeting and a proxy statement were sent to shareholders with this Annual Report.

### **CERTIFICATIONS**

Pursuant to New York Stock Exchange (NYSE) requirements, the Company submitted to the NYSE the annual certifications, dated February 29, 2008 and February 23, 2007, by the Company's chief executive officer that he was not aware of any violations by the Company of NYSE's corporate governance listing standards. In addition, the Company filed with the Securities and Exchange Commission the certifications by the Company's chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the Company's Forms 10-K for its fiscal years ended September 30, 2008 and September 30, 2007.

### **10-K REPORT**

A copy of the Company's 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders without charge. Direct your written request to Patricia K. Moore, Director of Investor Relations, ESCO Technologies Inc., 9900A Clayton Road, St. Louis, Missouri 63124.

The Form 10-K is also available on the Company's web site at [www.escotechnologies.com](http://www.escotechnologies.com).

### **INVESTOR RELATIONS**

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

### **TRANSFER AGENT AND REGISTRAR**

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

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

### **CAPITAL STOCK INFORMATION**

ESCO Technologies Inc. common stock shares (symbol ESE) are listed on the New York Stock Exchange. There were approximately 2,500 holders of record of shares of common stock at November 13, 2008.

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

KPMG LLP  
10 South Broadway, Suite 900  
St. Louis, Missouri 63102

SUBSIDIARIES OF  
ESCO TECHNOLOGIES INC.

<u>NAME</u>	<u>STATE OR JURISDICTION OF INCORPORATION OR ORGANIZATION</u>	<u>NAME UNDER WHICH IT DOES BUSINESS</u>
Aclara Power-Line Systems Inc.	Missouri	Same
Aclara RF Systems Inc.	Ohio	Same
Aclara Software Inc.	Massachusetts	Same
Beijing Lindgren ElectronMagnetic Technology Co., Ltd.	People's Republic of China	Same
Comtrak Technologies, L.L.C.	Missouri	Same
Distribution Control Systems Caribe, Inc.	Puerto Rico	Same
Doble Engineering Company	Massachusetts	Same
Doble PowerTest Limited	United Kingdom	Same
Doble TransiNor AS	Norway	Same
ESCO Technologies Holding Inc.	Delaware	Same
ETS-Lindgren, L.P.	Texas	Same and Acoustics Systems
ETS-Lindgren Japan, Inc.	Japan	Same
ETS Lindgren Limited	England	Same
ETS-Lindgren OY	Finland	Same
LDIC AG	Switzerland	Same
LDIC GmbH	Germany	Same
Lindgren R.F. Enclosures, Inc.	Illinois	Same and ETS-Lindgren
PTI Technologies Inc.	Delaware	Same
TekPackaging LLC	Delaware	Same
VACCO Industries	California	Same

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
ESCO Technologies Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 33-39737, 33-47916, 33-98112, 333-92945, 333-77887, 333-96309, 333-63930, 333-85268, and 333-117953) on Form S-8 of ESCO Technologies Inc. of our report dated December 1, 2008, with respect to the consolidated balance sheets of ESCO Technologies Inc. and subsidiaries (the Company) as of September 30, 2008 and 2007, 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, 2008, and the effectiveness of internal control over financial reporting as of September 30, 2008, which report appears in the Annual Report to Stockholders for the fiscal year ended September 30, 2008 and is incorporated by reference in the September 30, 2008 annual report on Form 10-K of ESCO Technologies Inc.

Our report dated December 1, 2008, on the consolidated financial statements refers to the adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standard No. 109*, effective October 1, 2007, the adoption of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2007, and the adoption of SFAS No. 123(R), *Share-Based Payment*, effective October 1, 2005.

The Company acquired Doble Engineering Company (Doble) on November 30, 2007, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2008, Doble's internal control over financial reporting. Total assets related to Doble as of September 30, 2008 of \$52.2 million and revenues for the ten-month period subsequent to the acquisition (November 30, 2007 to September 30, 2008) of \$74.3 million were included in the consolidated financial statements of the Company as of and for the year ended September 30, 2008. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Doble.

KPMG LLP

St. Louis, Missouri  
December 1, 2008

## CERTIFICATION

I, V.L. Richey, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of ESCO Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant, and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit and finance committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2008

/s/ V.L. Richey, Jr.

V.L. Richey, Jr.

Chairman, President and Chief Executive Officer

## CERTIFICATION

I, G.E. Muenster, certify that:

1. I have reviewed this annual report on Form 10-K of ESCO Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant, and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit and finance committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2008

/s/ G.E. Muenster  
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G.E. Muenster  
Exec. Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of ESCO Technologies Inc. (the "Company") on Form 10-K for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, V. L. Richey, Jr., Chairman, President and Chief Executive Officer of the Company, and G. E. Muenster, Executive Vice President and Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 1, 2008

/s/ V.L. Richey, Jr.

V.L. Richey, Jr.  
Chairman, President and Chief Executive  
Officer

/s/ G.E. Muenster

G.E. Muenster  
Exec. Vice President and Chief Financial Officer