SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 1997

OR

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

Commission file number: 1-10596

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

Missouri (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	43-1554045 (I.R.S. EMPLOYER IDENTIFICATION NO.)
8888 Ladue Road, Ste. 200 St. Louis, Missouri (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	63124-2090 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:

(314) 213-7200

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

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

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form l0-K or any amendment to this Form l0-K. [ ]

Aggregate market value of the Common Stock Trust Receipts held by non-affiliates of the registrant as of close of business on December 19, 1997: $195,738,287.*

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

Number of Common Stock Trust Receipts outstanding at December 19, 1997: 11,834,229 Receipts.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 1997 (the "1997 Annual Report") (Parts I and II).

2. Portions of the registrant's Proxy Statement dated December 9, 1997 (Part III).

ESCO ELECTRONICS CORPORATION
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PART I

ITEM 1. BUSINESS

THE COMPANY

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

The above-listed operating subsidiaries are engaged in the research, development, manufacture, sale and support of a wide variety of defense and commercial systems and products. Defense items principally are supplied to the United States Government under prime contracts with the Army, Navy and Air Force and under subcontracts with their prime contractors, and are also sold to foreign customers. Commercial items are supplied to a variety of customers worldwide. The Company's businesses are subject to a number of risks and uncertainties, including without limitation those discussed below. See Item 3. "Legal Proceedings" and "Management's Discussion and Analysis" appearing in the 1997 Annual Report.

On February 7, 1997, ESCO acquired the filtration products and thermoform packaging businesses ("Filtertek") of Schawk, Inc.

PRODUCTS

The Company operates in two principal industry segments: defense and commercial. See Note 11 of the Notes to Consolidated Financial Statements in the 1997 Annual Report, which Note is herein incorporated by reference.

DEFENSE PRODUCTS

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

DEFENSE SYSTEMS

SEI supplies light, medium and heavy transportation systems and weapon subsystems to the armed forces. Currently in production is a multiple-wheeled trailer with individually steerable axles for transporting large battle tanks. In fiscal year 1997, this product (the M1000 trailer) contributed $28.1 million in sales revenue; in fiscal year 1996, $34.0 million; and in fiscal year 1995, $64.5 million. SEI also supplies high-capacity aircraft cargo loaders which aid in rapid tactical and strategic deployment. The first production deliveries of a 60,000 pound capacity aircraft cargo loader developed for the U.S. Air Force were made in late fiscal year 1997. The Air Force is currently conducting the initial operational test and evaluation of this loader, the total production requirement for which is expected to exceed 300 units. Further, SEI produces light and heavy tactical bridging systems.

SEI also designs and manufactures launching and guidance systems utilizing electro-optic technology for anti-armor missiles. These systems are manufactured in differing configurations for installation on a variety of helicopters as well as armored vehicles. SEI is currently developing the mission equipment package for the

Bradley Fire Support Team Vehicle, which is used to direct artillery fire, locate enemy targets and provide vehicle self-location. In fiscal year 1997, SEI was awarded a contract to apply a more advanced version of this mission equipment package to the High-mobility Multi-purpose Wheeled Vehicle ("HMMWV").

DEFENSE ELECTRONICS

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

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

- SEI also supplies a lightweight man-portable surveillance radar that detects and classifies moving personnel, vehicles, low flying aircraft and artillery round impact.

- Automatic test equipment (ATE) for ground support of radar and other avionics equipment is also produced by SEI. SEI is currently developing a high power device test system which will be a part of the U.S. Navy's family of avionics test equipment. Current activity in the area of mobile electronic test sets, which are utilized for testing equipment on high performance fighter aircraft as well as a specialized military transport aircraft, is in the spares support phase. SEI also provides interface adapters and test program software to meet the needs of each particular unit under test.

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

COMMERCIAL PRODUCTS

The Company's commercial products are described below.

FILTRATION/FLUID FLOW

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

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

OTHER INDUSTRIAL /GOVERNMENT PRODUCTS

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

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

Filtertek, through its Tek Packaging Division, produces special thermoform packaging for the medical, electronics, commercial and retail markets.

COMMUNICATIONS/TEST

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

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

Rantec designs and manufactures antennas and feeds for commercial uses, including an electronically scanned antenna used for control and navigation of air traffic. Rantec has also developed and will produce a commercial satellite cross-link antenna for use on the IRIDIUM(1) system, a forthcoming communications satellite system. Rantec also produces satellite antenna systems for use on commercial aircraft for in-flight entertainment, both audio and video.

SEI has extensive experience in the design and manufacture of location systems for military applications. SEI used this technological expertise to develop a vehicle location, tracking and communications system which will have applications in theft deterrence, fleet management and messaging communications. SEI has also applied its expertise in image processing and target recognition to develop a proprietary security monitoring system which should have applications in commercial and industrial security systems.

MARKETING AND SALES

The Company's defense products predominantly are sold directly or indirectly to the U.S. Government under contracts with the Army, Navy and Air Force and subcontracts with prime contractors of such entities. Direct and indirect sales to the U.S. Government accounted for approximately 44%, 53% and

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(1) IRIDIUM is a registered trademark and service mark of IRIDIUM LLC.

70% of the Company's total sales in the fiscal years ended September 30, 1997, 1996 and 1995, respectively. The percentage figures for fiscal years 1996 and 1995 include 16% and 21%, respectively, attributable to U.S. Government sales of Hazeltine Corporation, a former subsidiary of ESCO which was sold to GEC-Marconi Electronic Systems Corporation ("GEC-Marconi") in July 1996. See Notes 2 and 11 of the Notes to Consolidated Financial Statements in the 1997 Annual Report, which Notes are herein incorporated by reference.

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

International sales accounted for approximately 18%, 33% and 29% of the Company's total sales in the fiscal years ended September 30, 1997, 1996 and 1995, respectively. The decrease in fiscal year 1997 was primarily due to the divestiture of Hazeltine in July 1996 and lower Middle East sales at SEI. Hazeltine's international sales in the fiscal years ended September 30, 1996 and 1995 amounted to 13% in each year of the Company's total sales. See Notes 2 and 11 of the Notes to Consolidated Financial Statements in the 1997 Annual Report. The majority of these international sales involve defense products. Since most of the Company's foreign export sales involve technologically advanced products, services and expertise, U.S. export control regulations limit the types of products and services that may be offered and the countries and governments to which sales may be made. The Department of State issues and maintains the International Traffic in Arms Regulations pursuant to the Arms Export Control Act. Pursuant to these regulations, certain products and services cannot be exported without obtaining a license from the Department of State. Most of the defense products that the Company sells abroad cannot be sold without such a license. Consequently, the Company's international sales may be adversely affected by changes in the U.S. Government's export policy or by any suspension or revocation of the Company's foreign export control licenses.

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

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

GOVERNMENT DEFENSE CONTRACTS

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

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

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

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

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

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

As a U.S. Government contractor, recognition of revenue is based upon certain accounting policies described in Notes 1(d) and 1(f) of the Notes to Consolidated Financial Statements in the 1997 Annual Report, which Notes are herein incorporated by reference. The Company's revenues are impacted by the timing of the receipt of orders during the year, which may cause fluctuations in quarterly sales comparisons on a year-to-year basis. The Company periodically reviews contracts in the ordinary course to ascertain if customer actions or inactions have caused or will cause increased costs. The Company has submitted requests for equitable adjustments ("REAs") and claims seeking additional compensation, which involve substantial amounts of money. To the extent these REAs and claims are finally resolved for less than the amounts anticipated, the Company's financial position and operating results could be adversely affected.

INTELLECTUAL PROPERTY

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

BACKLOG

The backlog of firm orders was approximately $228.2 million at September 30, 1997 and approximately $244.0 million at September 30, 1996. As of September 30, 1997, it is estimated that: (i) defense business accounted for approximately 48% of the firm orders and commercial business accounted for approximately 52%, and (ii) domestic customers accounted for approximately 88% of the firm orders and foreign customers accounted for approximately 12%. Of the total backlog of orders at September 30, 1997, approximately 89% (including all commercial orders) is expected to be completed in the fiscal year ending September 30, 1998.

PURCHASED COMPONENTS AND RAW MATERIALS

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

COMPETITION

The Company faces intense competition from a large number of firms for nearly all of its products. The principal competitive factors in the defense markets are price, service, quality, technical expertise and the ability to design and manufacture products to desired specifications. In filtration/ fluid flow, EMC test and commercial communications markets, competition is driven primarily by quality, price, technology and delivery performance. For most of its defense products and many of its commercial products, the Company's competitors are larger and have greater financial resources than the Company. As budgets decline, larger prime contractors may retain work which previously would have been subcontracted. Although the Company is a leading supplier in several of the markets it serves, the Company maintains a relatively small share of the business in many of the markets in which it participates. Because of the diversity and specialized nature of the Company's products, it is impossible to state precisely its competitive position with respect to each of its products. Substantial efforts are required in order to maintain existing business levels.

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

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

Competition in the Company's commercial markets is broadly based, and global in scope. Individual competitors range in size from annual revenues of less than $1 million to billion dollar enterprises, such as Pall Corporation, a major competitor in the filtration/fluid flow market. While the Company's commercial markets generally enjoy greater growth prospects than the defense markets, competition can be equally intense.

RESEARCH AND DEVELOPMENT

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

In addition to its work under development contracts, the Company performs research and development at its own expense. For the fiscal years ended September 30,1997, 1996 and 1995, total Company-sponsored research and development expenses were approximately $6.2 million, $11.9 million and $15.1 million, respectively, and Company-sponsored research and development expenses attributable to Hazeltine were approximately $6.1 million and $9.3 million for the fiscal years ended September 30, 1996 and 1995, respectively. Total customer-sponsored research and development expenses were approximately $6.3 million, $3.9 million and $10.1 million for the fiscal years ended September 30, 1997, 1996 and 1995, respectively. Such customer-sponsored expenses attributable to Hazeltine were approximately $3.9 million and $9.1 million for the fiscal years ended September 30, 1996 and 1995, respectively. The decreases in fiscal years 1997 and 1996 research and development expenses were due to the divestiture of Hazeltine in fiscal year 1996.

ENVIRONMENTAL MATTERS

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

EMPLOYEES

As of October 31, 1997, the Company employed approximately 3,400 persons. Approximately 360 of the Company's employees are covered by a collective bargaining agreement, which expires in fiscal year 2000.

FINANCING

The Company has a credit agreement, which has been amended and restated as of February 7, 1997, and further amended as of May 6, 1997 and as of November 21, 1997, for a $60 million term loan, amortizing at $1 million per quarter until March 31, 1998 and at $2 million per quarter thereafter through maturity, and an $80 million revolving credit facility (together the "Credit Facilities") with a group of seven banks agented by Morgan Guaranty Trust Company of New York. The Credit Facilities will mature and expire on September 30, 2000, and contain customary events of default, including change in control of the Company. In addition, under the Credit Facilities an event of default would occur if, for any reason other than payment or performance in accordance with the terms of one of the Company's contracts guaranteed by Emerson as referenced in the following section, Emerson shall cease to be liable under its guarantees with respect to any such contract. See "History Of The Business" below, "Management's Discussion and Analysis--Capital Resources and Liquidity" in the 1997 Annual Report, and Notes 7 and 12 of the Notes to Consolidated Financial Statements in the 1997 Annual Report, which Notes are herein incorporated by reference.

HISTORY OF THE BUSINESS

ESCO was incorporated in Missouri in August 1990 as a wholly-owned subsidiary of Emerson Electric Co. ("Emerson") to be the holding company for Electronics & Space Corp. ("E&S"), Hazeltine, Southwest Mobile Systems Corporation ("Southwest"), Rantec, VACCO and DCSI, which were then Emerson subsidiaries. Ownership of ESCO and its subsidiaries was distributed on October 19, 1990 (the "Distribution Date") by Emerson to its shareholders through a special distribution (the "Distribution"). On September 30, 1992, ESCO acquired ownership of Textron Filtration Systems, Inc. from Textron, Inc. and renamed the entity "PTI Technologies Inc." On March 12, 1993, ESCO acquired The Electro-Mechanics Company, a privately held company, from its shareholders. On December 1, 1993, ESCO acquired all outstanding stock of Schumacher Filters Limited (located in England) from Kraftanlagen, AG of Germany, and renamed this entity "PTI Technologies Limited". On December 29, 1994, ESCO acquired the assets of Ray Proof North America, a division of Shielding Systems Corporation, a subsidiary of Bairnco Corporation.

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

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

On July 22, 1996, ESCO sold 100% of the capital stock of Hazeltine to GEC-Marconi. On February 7, 1997, ESCO acquired the filtration products and the thermoform packaging businesses ("Filtertek") of Schawk, Inc. See Note 2 of the Notes to Consolidated Financial Statements in the 1997 Annual Report.

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

In connection with the Distribution, Emerson, ESCO and ESCO's subsidiaries entered into various agreements which deal with, among other things: (A) Emerson's guarantee of certain contracts of ESCO's subsidiaries existing at September 30, 1990 pursuant to which ESCO paid Emerson a guarantee fee of $7.4 million per year during the subsequent five (5) year period, which ended September 30, 1995 (as of September 30, 1997, the aggregate backlog of firm orders received by the Company was approximately $228.2 million which included guaranteed contracts totaling approximately $4.2 million, and there were open letters of credit with an aggregate value of approximately $2.4 million related to foreign advance payments in support of various contracts guaranteed by Emerson); (B) the lease by E&S (which lease was guaranteed by ESCO) from Emerson of real property in St. Louis County, Missouri which formerly comprised ESCO's headquarters and E&S' primary manufacturing facility, and which terminated on September 30, 1995; (C) the allocation between ESCO and Emerson of certain rights and obligations relating to outstanding litigation, pre-Distribution tax liabilities and certain other matters; and (D) the provision of certain services by ESCO to Emerson and by Emerson to ESCO, which terminated on September 30, 1995. See Note 12 of the Notes to Consolidated Financial Statements in the 1997 Annual Report. Copies of certain of these agreements, as well as the Deposit and Trust Agreement, are incorporated by reference as exhibits to this Form 10-K.

Pursuant to the Deposit and Trust Agreement, if ESCO should fail in certain circumstances to collateralize its obligation to indemnify Emerson with respect to contracts that are directly or indirectly guaranteed by Emerson, Emerson would have the right to direct the voting of the ESCO Common Stock represented by the Receipts with respect to the election of directors (including changing the size of the Board or removing directors and filling any vacancies). Emerson has the right to require ESCO to provide collateral upon: (A) the occurrence of certain events relating to such guaranteed contracts, including defaults; (B) ESCO's failure to provide certain information, notices or consultation to Emerson or to maintain certain financial ratios and covenants; or (C) the acquisition of beneficial ownership of 20% or more of the voting power of ESCO's outstanding capital stock by any person or group. If Emerson requires such collateral, it is unlikely that ESCO will be able to provide it in light of, among other things, the amount of collateral which would be required to secure its obligations under the guaranteed contracts, which obligations may continue even after completion of the contracts, and restrictions in its financing arrangements unless a waiver is obtained from its lenders. See "Financing" above and Note 8 of the Notes to Consolidated Financial Statements in the 1997 Annual Report, which Note is herein incorporated by reference.

Effective September 30, 1993, ESCO's Board of Directors authorized an accounting readjustment of the Company's balance sheet in accordance with the accounting provisions applicable to a "quasi-reorganization," an elective accounting procedure intended to restate assets and liabilities to fair values and to eliminate any accumulated deficit in retained earnings. See Note 1(b) of the Notes to Consolidated Financial Statements in the 1997 Annual Report, which Note is herein incorporated by reference.

During fiscal year 1995, the Company changed its method of accounting from amortizing the Emerson guarantee fee over the expected duration of the guaranteed contracts (estimated benefit period of seven years) on a straight-line basis to amortizing it based upon the related guaranteed contract revenues generated to date and the expected future revenues. This change in accounting principle, which is inseparable from a change in accounting estimate, was retroactively implemented effective October 1, 1994. See Note 1(e) of the Notes to Consolidated Financial Statements in the 1997 Annual Report, which Note is herein incorporated by reference.

FORWARD-LOOKING INFORMATION

The statements contained in this Item 1. "Business" and in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" concerning the Company's future revenues, profitability, financial resources, product mix, production and deliveries, market demand, product development and competitive position are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to: changing priorities or reductions in the U.S. and worldwide defense budgets; termination of government contracts due to unilateral government action or the Company's failure to perform; delivery delays or defaults by customers; performance issues with key suppliers and subcontractors; the Company's successful execution of internal operating plans; and collective bargaining labor disputes.

ITEM 2. PROPERTIES

The Company's principal buildings contain approximately 1,911,000 square feet of floor space. Approximately 1,548,500 square feet are owned by the Company and approximately 362,500 square feet are leased. Substantially all of the Company's owned properties are encumbered in connection with the Company's Credit Facilities. See Item 1. "Business--Financing" and Note 7 of the Notes to Consolidated Financial Statements in the 1997 Annual Report. The principal plants and offices are as follows:

LOCATION	SIZE (SQ. FT.)	SQ. FT. OWNED/LEASED	PRINCIPAL USE (INDUSTRY SEGMENT)
West Plains, MO	393,000	Owned	Manufacturing (Defense and Commercial)
St. Louis, MO	260,500	Owned	Management and Engineering (Defense and Commercial)
Sanford, FL	172,200	Owned	Manufacturing (Defense and Commercial)
Newbury Park, CA	144,600	Leased	Management, Engineering and Manufacturing (Defense and Commercial)
Huntley, IL	127,000	Owned	Manufacturing (Commercial)
Patillas, PR	110,000	Owned	Manufacturing (Commercial)

Durant, OK	100,000	Owned	Manufacturing (Commercial)
Hebron, IL	99,800	Owned	Management, Engineering and Manufacturing (Commercial)
South El Monte, CA	80,800	Owned	Management, Engineering and Manufacturing (Defense and Commercial)
Calabasas, CA	61,700	Owned	Management, Engineering and Manufacturing (Defense and Commercial)
Stockton, CA	55,000	Leased	Manufacturing (Commercial)
Austin, TX	50,000	Leased	Management, Engineering and Manufacturing (Commercial)
Los Osos, CA	40,000	Owned	Engineering and Manufacturing (Defense and Commercial)
Newcastle West, Ireland	37,000	Owned	Manufacturing (Commercial)
St. Louis, MO	35,000	Leased	Management, Engineering and Manufacturing (Commercial)
Juarez, Mexico	34,400	Leased	Manufacturing (Defense and Commercial)
Sheffield, England	33,500	Owned	Management, Manufacturing and Distributor (Commercial)
Plailly, France	33,000	Owned	Manufacturing (Commercial)
Sao Paulo, Brazil	22,000	Leased	Manufacturing (Commercial)
St. Louis, MO	21,800	Leased	ESCO Headquarters (Defense and Commercial)

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

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

EXECUTIVE OFFICERS OF THE REGISTRANT.

The following sets forth certain information as of December 13, 1997 with respect to ESCO's executive officers. These officers have been elected to terms which expire at the first meeting of the Board of Directors after the next annual meeting of stockholders.

Name	Age	Position(s)
Dennis J. Moore *	59	Chairman, President and Chief Executive Officer
Philip M. Ford	57	Senior Vice President and Chief Financial Officer
Walter Stark	54	Senior Vice President, Secretary and General Counsel
Philip A. Hutchison	56	Senior Vice President, Human Resources and Administration

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

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

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

Mr. Ford has been Senior Vice President and Chief Financial Officer of ESCO since October 1, 1990.

Since October 1992, Mr. Hutchison has been Senior Vice President, Human Resources and Administration of ESCO.

Since October 1992, Mr. Stark has been Senior Vice President, Secretary and General Counsel of ESCO.

PART II

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

The information required by this item is incorporated herein by reference to Notes 7 and 8 of the Notes to Consolidated Financial Statements, "Common Stock Market Prices" and "Shareholders' Summary--Capital Stock Information" appearing in the 1997 Annual Report. A special cash distribution of $3.00 per share was paid to Stockholders in September 1996. No other cash dividends have been declared on the Common Stock underlying the Receipts, and ESCO does not anticipate, currently or in the foreseeable future, paying cash dividends on the Common Stock, although it reserves the right to do so to the extent permitted by applicable law and agreements. ESCO's dividend policy will be reviewed by the Board of Directors at such future time as may be appropriate in light of relevant factors at that time, based on ESCO's earnings and financial position and such other business considerations as the Board deems relevant at that time.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item, with respect to selected financial data, is incorporated herein by reference to "Five-Year Financial Summary" and Note 2 of the Notes to Consolidated Financial Statements appearing in the 1997 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 1997 Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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 17 through 34 and the report thereon of KPMG Peat Marwick LLP, independent certified public accountants, appearing on page 35 of the 1997 Annual Report.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding nominees and directors appearing under "Nominees and Continuing Directors" in ESCO's Notice of the Annual Meeting of the Stockholders and Proxy Statement dated December 9, 1997 (the "1998 Proxy Statement") is hereby incorporated by reference. Information regarding executive officers is set forth in Part I of this Form 10-K.

Information appearing under "Section 16(a) Beneficial Ownership Reporting Compliance" in the 1998 Proxy Statement is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information appearing under "Board of Directors and Committees" and "Executive Compensation" (except for the "Report of the Human Resources And Ethics Committee On Executive Compensation" and the "Performance Graph") in the 1998 Proxy Statement is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding beneficial ownership of Receipts representing shares of common stock by nominees and directors, by executive officers, by directors and executive officers as a group and by any five percent stockholders appearing under "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners" in the 1998 Proxy Statement is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

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

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

1. The Consolidated Financial Statements of the Company on pages 17 through 34 and the Independent Auditors' Report thereon of KPMG Peat Marwick LLP appearing on page 35 of the 1997 Annual Report.

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

3. Exhibits

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
2(a)(i)	Stock Purchase Agreement dated as of May 23, 1996 between ESCO and GEC-Marconi	Incorporated by Reference, Exhibit 2 [1]
2(a)(ii)	First Amendment Agreement dated as of July 19, 1996 to Stock Purchase Agreement listed as Exhibit 2(a)(i) above	Incorporated by Reference, Exhibit 2 [1]
2(b)(i)	Acquisition Agreement dated December 18, 1996 between the Company and Schawk, Inc.	Incorporated by Reference, Exhibit 2(a) [2]

2(b)(ii)	First Amendment dated as of February 6, 1997 to Acquisition Agreement listed as Exhibit 2(b)(i) above	Incorporated by Reference, Exhibit 2(b) [2]
3(a)	Restated Articles of Incorporation of ESCO	Incorporated by Reference, Exhibit 3.1 [3]
3(b)	Bylaws of ESCO, as amended	Incorporated by Reference, Exhibit 3(b) [4]
4(a)	Specimen certificate for ESCO's Common Stock Trust Receipts	Incorporated by Reference, Exhibit 4(a) [5]
4(b)	Rights Agreement dated as of September 24, 1990 between ESCO and Boatmen's Trust Company, as Rights Agent	Incorporated by Reference, Exhibit 4.2 [3]
4(c)(i)	Credit Agreement dated as of September 23, 1990 (as amended and restated as of December 30, 1992, amended as of January 15, 1993, October 15, 1993 and November 29, 1993, amended and restated as of May 27, 1994, amended as of August 5, 1994, amended and restated as of September 29, 1995, amended as of June 6, 1996 and August 2, 1996, and amended and restated as of February 7, 1997) among ESCO, Defense Holding Corp., the Banks listed therein and Morgan Guaranty Trust Company of New York, as Agent	Incorporated by Reference, Exhibit 4 [2]
4(c)(ii)	Amendment dated as of May 6, 1997 to Credit Agreement listed as Exhibit 4(c)(i) above	
4(c)(iii)	Amendment dated as of November 21, 1997 to Credit Agreement listed as Exhibit 4(c)(i) above	
	No other long-term debt instruments are filed since the total amount of securities authorized under any such instrument does not exceed ten percent of the total assets of ESCO and its subsidiaries on a consolidated basis. ESCO agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.	
4(d)	Deposit and Trust Agreement dated as of September 24, 1990 among ESCO, Emerson Electric Co., Boatmen's Trust Company, as Trustee, and the holders of Receipts from time to time	Incorporated by Reference, Exhibit 4.3 [3]

10(a)	Distribution Agreement dated as of September 24, 1990 by and among ESCO, Emerson Electric Co., and ESCO's direct and indirect subsidiaries	Incorporated by Reference, Exhibit 2.1 [3]
10(b)	Tax Agreement dated as of September 24, 1990 by and among ESCO, Emerson Electric Co., and ESCO's direct and indirect subsidiaries	Incorporated by Reference, Exhibit 2.2 [3]
10(c)(i)	1990 Stock Option Plan*	Incorporated by Reference,Exhibit 10.3 [3]
10(c)(ii)	Amendment to 1990 Stock Option Plan dated as of September 4, 1996*	Incorporated by reference, Exhibit 10(c)(ii) [6]
10(d)	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10(g) [5]
10(e)	Form of Incentive Stock Option Agreement - Alternative*	Incorporated by Reference, Exhibit 10(h) [5]
10(f)	Form of Non-Qualified Stock Option Agreement*	Incorporated by Refrence, Exhibit 10(i) [5]
10(g)	Form of Split Dollar Agreement*	Incorporated by Reference, Exhibit 10(j) [4]
10(h)	Form of Indemnification Agreement with each of ESCO's directors.	Incorporated by Reference, Exhibit 10(k) [4]
10(i)	Stock Purchase Agreement dated as of August 20, 1992 by and between Textron, Inc. and ESCO	Incorporated by Reference, Exhibit 10(l) [7]
10(j)(i)	Performance Share Plan*	Incorporated by Reference [8]
10(j)(ii)	Amendment to Performance Share Plan dated as of September 4, 1996*	Incorporated by Reference, Exhibit 10(j)(ii) [6]
10(k)	Supplemental Executive Retirement Plan as amended and restated as of August 2, 1993*	Incorporated by Reference, Exhibit 10(n) [9]
10(l)(i)	Directors' Extended Compensation Plan*	Incorporated by Reference, Exhibit 10(o) [9]
10(l)(ii)	Compensatory Arrangement with former ESCO director*	Incorporated by Reference, Exhibit 10(l)(ii) [6]
10(m)(i)	1994 Stock Option Plan*	Incorporated by Reference [10]
10(m)(ii)	Amendment to 1994 Stock Option Plan dated as of September 4, 1996*	Incorporated by Reference, Exhibit 10(m)(ii) [6]
10(n)	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10(n) [11]

10(o)	Form of Non-Qualified Stock Option Agreement*	Incorporated by Reference, Exhibit 10(o) [11]
10(p)	Severance Plan*	Incorporated by Reference, Exhibit 10(p)[11]
10(q)	Performance Compensation Plan dated as of August 2, 1993 (as amended and restated as of October 1, 1995)*	Incorporated by Reference, Exhibit 10(q) [6]
10(r)	1997 Performance Share Plan*	Incorporated by Reference [12]
10(s)	Notice Of Award--stock award to executive officer*	
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 1997: Five-Year Financial Summary (p. 36) Management's Discussion and Analysis (pgs. 10-16) Consolidated Financial Statements (pgs. 17-34) and Independent Auditors' Report (p. 35) Shareholders' Summary--Capital Stock Information (p. 37) Common Stock Market Prices (p. 36)	
21	Subsidiaries of ESCO	
23	Independent Auditors' Consent	
27	Financial Data Schedule	

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

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

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

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

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

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

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

Exhibit indicated

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

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

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

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

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

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

(b) No report on Form 8-K was filed during the quarter ended September 30, 1997.

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

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

SIGNATURES

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

ESCO ELECTRONICS CORPORATION

By /s/ D. J. Moore

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

Dated: December 19, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below effective December 19, 1997, by the following persons on behalf of the registrant and in the capacities indicated.

SIGNATURE	TITLE
/s/ D. J. Moore D.J. Moore	Chairman, President, Chief Executive Officer and Director
/s/ P. M. Ford P.M. Ford	Senior Vice President and Chief Financial Officer (Principal Accounting Officer)
/s/ J. J. Adorjan J.J. Adorjan	Director
/s/ W. S. Antle III W.S. Antle III	Director
/s/ J. J. Carey J.J. Carey	Director
/s/ J.M. McConnell J.M. McConnell	Director
/s/ D. C. Trauscht D.C. Trauscht	Director

INDEX TO EXHIBITS

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

Exhibit No.	Exhibit
4(c)(ii)	Amendment dated as of May 6, 1997 to Credit Agreement listed as Exhibit 4(c)(i) in the list of exhibits in Item 14(a)(3)
4(c)(iii)	Amendment dated as of November 21, 1997 to Credit Agreement listed as Exhibit 4(c)(i) in the list of exhibits in Item 14(a)(3)
10(s)	Notice of Award--stock award to executive officer
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 1997: Five-year Financial Summary (p. 36) Management's Discussion and Analysis (pgs. 10-16) Consolidated Financial Statements (pgs. 17-34) and Independent Auditors' Report (p. 35) Shareholders' Summary--Capital Stock Information (p. 37) Common Stock Market Prices (p. 36)
21	Subsidiaries of ESCO
23	Independent Auditors' Consent
27	Financial Data Schedule

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

EXHIBIT 4(c)(ii)

AMENDMENT dated as of May 6, 1997, to the Credit Agreement dated as of September 23, 1990 (as amended and restated as of January 29, 1997) (the "Credit Agreement"), among ESCO ELECTRONICS CORPORATION, a Missouri corporation ("ESCO"), DEFENSE HOLDING CORP., a Delaware corporation (the "Borrower"), the BANKS party thereto (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

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

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

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

SECTION 1. Amendments. (a) Section 1.01 of the Credit Agreement is amended to add the following definition after the definition of "FBV":

"FDB" means Filtertek Do Brasil Industria E Comercio S.A.

(b) Section 5.09 of the Credit Agreement is hereby amended and restated as follows:

> SECTION 5.09. Subsidiaries; Partnerships. ESCO will not have any direct Subsidiaries other than the Borrower and any Restricted Subsidiaries. The Borrower will not have any direct or indirect Subsidiaries, other than the Specified Subsidiaries and any Subsidiaries resulting from any Investments made in accordance with clause (f) or (l) of Section 5.16 and any Restricted Subsidiaries, all of which shall be direct Subsidiaries (except that (i) PPD shall be a

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direct Subsidiary of SFL, (ii) Comtrak shall be a direct Subsidiary of SEI, (iii) EMC Test Systems shall be a limited partnership as described in the definition of "EMC Test Systems Reorganization", (iv) Rantec shall be a direct Subsidiary of Rantec Holding as described in the definition of "EMC Test Systems Reorganization", (v) Rantec Commercial shall be a direct Subsidiary of Rantec as described in the definition of "EMC Test Systems Reorganization", (vi) FBV, FGMBH, Filtrotec, FDPR and FDB shall be direct subsidiaries of Filtertek and (vii) FSA shall be a subsidiary of Filtertek and FBV). Neither ESCO nor the Borrower will, and they will not permit any of their Subsidiaries to, enter into any partnership or joint venture other than EMC Test Systems and a Permitted Joint Venture. Notwithstanding anything to the contrary contained in this Section (i) Uniexcel shall be a partially-owned Subsidiary of SFL, (ii) Filtertek de Puerto Rico S.A. may issue Class B Common Stock to certain of its senior executives and (iii) Filtertek may own less than all of, but not less than 85% of, the outstanding common stock of FDB.

(c) Section 5.11(a) of the Credit Agreement is hereby amended to add the following clauses (xi) and (xii) at the end of such Section:

(xi) Debt consisting of (A) working capital loans made by ESCO, the Borrower or Filtertek or by one or more local banks in Brazil to FDB, and (B) unsecured guarantees by ESCO, the Borrower or Filtertek of any such loans made by local banks in Brazil; provided that the aggregate principal amount of Debt at any time outstanding under this clause (xi) shall not exceed $3,000,000; and

(xii) Debt of FDB, in an aggregate principal amount not exceeding $200,000 resulting from contributions of equipment to FDB, as contemplated by Section 5.16(l).

(d) Section 5.16 of the Credit Agreement is hereby amended to add the following clause (l) at the end of such Section:

(l) if at the time thereof and after giving effect thereto no Default shall have occurred and be continuing, Investments by Filtertek in FDB consisting of (i) contributions of equipment with a book value not

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exceeding $200,000, of which $100,000 shall be treated as an equity contribution and the balance as Debt of FDB, and (ii) loans made to, or guarantees of loans made to, FDB, to the extent permitted by clause (xi) of Section 5.17(a); provided that all Investments in FDB, made pursuant to this clause (l), including any guarantees of Debt of FDB, shall be treated as an Investment made pursuant to clause (f) of this Section for purposes of determining compliance with the limitations of such clause (f).

(e) Section 5.17 of the Credit Agreement is hereby amended to add the following clause (m) at the end of such Section:

(m) Liens of FDB to secure Debt of FDB permitted by Section 5.11(a)(xi).

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

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

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

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

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

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

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

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

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

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

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

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

ESCO ELECTRONICS CORPORATION

by
/s/ Donald H. Nonnenkamp

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

DEFENSE HOLDING CORP.

by
/s/ Philip M. Ford

Name: Philip M. Ford
Title: Senior Vice President &
Chief Financial Officer

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

by
/s/ Robert L. Barrett

Name: Robert L. Barett
Title: Vice President

THE BOATMAN'S NATIONAL BANK
OF ST. LOUIS

by
/s/ Kenneth J. Schult

Name: Kenneth J. Schult
Title: Vice President

THE BANK OF NEW YORK

by
/s/ John C. Lambert

Name: John C. Lambert
Title: Vice President

THE BANK OF NOVA SCOTIA

by
/s/ F.C.H. Ashby

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

THE SUMITOMO BANK, LIMITED

by
/s/ Teresa A. Lekich

Name: Teresa A. Lekich
Title: Vice President

by
/s/ Michael F. Murphy

Name: Michael F. Murphy
Title: Vice President &
Manager

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FIRST UNION NATIONAL BANK OF
NORTH CAROLINA

by
/s/ Mark M. Harden

Name: Mark M. Harden
Title: Vice President

SANWA BUSINESS CREDIT CORPORATION

by
/s/ Lawrence J. Placek

Name: Lawrence J. Placek
Title: Vice President

EXHIBIT 4(c)(iii)

AMENDMENT dated as of November 21, 1997, to the Credit Agreement dated as of September 23, 1990 (as amended and restated as of February 7, 1997) (the "Credit Agreement"), among ESCO ELECTRONICS CORPORATION, a Missouri corporation ("ESCO"), DEFENSE HOLDING CORP., a Delaware corporation (the "Borrower"), the BANKS party thereto (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

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

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

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

SECTION 1. Amendments. (a) Section 1.01 of the Credit Agreement is amended to add the following definitions in alphabetical order:

"Euroshield" means Euroshield OY.

"Euroshield Acquisition Corporation" means EMC Test Systems or any other Wholly-Owned Consolidated Subsidiary.

"PTI Filters" means Sanmar - PTI Filters Limited.

(b) The second proviso in the second sentence of Section 5.08 of the Credit Agreement is hereby amended and restated as follows:

> provided further, that the Borrower shall not be required to pledge or create a security interest in any of the assets of SFL, FBV, FGMBH, FSA, Filtrotec, PPD (including the capital stock of PPD) or Euroshield, nor shall SFL, FBV, FGMBH, FSA, Filtrotec, PPD or Euroshield be required to become a party to the

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Guarantee Agreement or the Security Agreement, and the pledge by the Borrower of the capital stock of SFL, the pledge by Filtertek of the capital stock of FBV, FGMBH, FSA and Filtrotec, and the pledge by Euroshield Acquisition Corporation of the capital stock of Euroshield shall be limited to 65% of each class of such capital stock.

(c) Section 5.09 of the Credit Agreement is hereby amended and restated as follows:

SECTION 5.09. Subsidiaries; Partnerships. ESCO will not have any direct Subsidiaries other than the Borrower and any Restricted Subsidiaries. The Borrower will not have any direct or indirect Subsidiaries, other than the Specified Subsidiaries and any Subsidiaries resulting from any Investments made in accordance with clause (f), (l) or (n) of Section 5.16 and any Restricted Subsidiaries, all of which shall be direct Subsidiaries (except that (i) PPD shall be a direct Subsidiary of SFL, (ii) Comtrak shall be a direct Subsidiary of SEI, (iii) EMC Test Systems shall be a limited partnership as described in the definition of "EMC Test Systems Reorganization", (iv) Rantec shall be a direct Subsidiary of Rantec Holding as described in the definition of "EMC Test Systems Reorganization", (v) Rantec Commercial shall be a direct Subsidiary of Rantec as described in the definition of "EMC Test Systems Reorganization", (vi) FBV, FGMBH, Filtrotec, FDPR and FDB shall be direct subsidiaries of Filtertek, (vii) FSA shall be a subsidiary of Filtertek and FBV, and (viii) Euroshield shall be a subsidiary of Euroshield Acquisition Corporation). Neither ESCO nor the Borrower will, and they will not permit any of their Subsidiaries to, enter into any partnership or joint venture other than EMC Test Systems, PTI Filters and a Permitted Joint Venture. Notwithstanding anything to the contrary contained in this Section (i) Uniexcel shall be a partially-owned Subsidiary of SFL, (ii) Filtertek de Puerto Rico S.A. may issue Class B Common Stock to certain of its senior executives, (iii) Filtertek may own less than all of, but not less than 85% of, the outstanding common stock of FDB and (iv) PTI may own not less than 40% and not more than 49% of the outstanding common stock of PTI Filters.

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(d) Section 5.11(a) of the Credit Agreement is hereby amended to add the following clauses (xiii) and (xiv) at the end of such Section:

(xiii) Debt consisting of unsecured guarantees by ESCO, the Borrower or PTI of 49% of the outstanding amount of loans to PTI Filters made by local banks in India; provided that the aggregate principal amount of such unsecured guarantees at any time outstanding under this clause (xiii) shall not exceed $800,000; and

(xiv) following the completion of the acquisition of Euroshield by Euroshield Acquisition Corporation, unsecured and secured Debt of Euroshield and unsecured guarantees by ESCO, the Borrower or Euroshield Acquisition Corporation of Debt of Euroshield, in each case, in an amount not to exceed $2,500,000.

(d) Section 5.16 of the Credit Agreement is hereby amended to add the following clauses (m) and (n) at the end of such Section:

(m) if at the time thereof and after giving effect thereto no Default shall have occurred and be continuing, Investments by PTI in PTI Filters consisting of (i) contributions of cash and equipment with a book value not exceeding $255,000, which shall be treated as an equity contribution, and (ii) loans made to, or guarantees of loans made to, PTI Filters, to the extent permitted by clause (xiii) of Section 5.11(a); provided that all Investments in PTI Filters, made pursuant to this clause (m), including any guarantees of Debt of PTI Filters, shall be treated as an Investment made pursuant to clause (f) of this Section for purposes of determining compliance with the limitations of such clause (f).

(n) if at the time thereof and after giving effect thereto no Default shall have occurred and be continuing, Investments by Euroshield Acquisition Corporation to effect the acquisition of Euroshield consisting of (i) $3,500,000 of cash, (ii) $750,000 of deferred purchase price payable over three years following such acquisition, and (iii) $750,000 payable in the third year if certain performance targets are met; provided that all Investments in Euroshield, made pursuant to this clause (n), shall be treated as an

Investment made pursuant to clause (f) of this Section for purposes of determining compliance with the limitations of such clause (f).

(e) Section 5.17 of the Credit Agreement is hereby amended to add the following clause (n) at the end of such Section:

(n) Liens of Euroshield to secure Debt of Euroshield permitted by Section 5.11(a)(xiv).

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

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

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

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

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

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

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

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

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

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

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

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

ESCO ELECTRONICS CORPORATION

by
/s/ Donald H. Nonnenkamp

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

DEFENSE HOLDING CORP.

by
/s/ Philip M. Ford

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

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

by
/s/ Kevin J. O'Brien

Name: Kevin J. O'Brien

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Title: Vice President

NATIONSBANK, N.A.

by
/s/ Kenneth J. Schult

Name: Kenneth J. Schult
Title: Vice President

THE BANK OF NEW YORK

by
/s/ Christopher C. Jacobs

Name: Christopher C. Jacobs
Title: Assistant Treasurer

THE BANK OF NOVA SCOTIA

by
/s/ F.C.H. Ashby

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

THE SUMITOMO BANK, LIMITED

by
/s/ Teresa A. Lekich

Name: Teresa A. Lekich
Title: Vice President

by
/s/ Michael F. Murphy

Name: Michael F. Murphy
Title: Vice President & Manager

FIRST UNION NATIONAL BANK OF
NORTH CAROLINA

by
/s/ Glenn Edwards

Name: Glenn Edwards
Title: Vice President

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SANWA BUSINESS CREDIT CORPORATION

by
/s/ Lawrence J. Placek

Name: Lawrence J. Placek
Title: Vice President

EXHIBIT 10(s)

NOTICE OF AWARD

To: Dennis J. Moore

From: Board of Directors of ESCO Electronics Corporation ("Board")

Subject: Award of Restricted Shares

1. Award. The Board has awarded to you 32,000 Shares of Company Stock (as hereinafter defined), subject to the terms hereinafter set forth.

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

(a) During the period commencing on the date hereof and ending on September 30, 2000 (the "Restriction Period") you must remain employed by the Company. If during the Restriction period you terminate employment for any reason other than death or disability, you will forfeit the shares of Company Stock awarded hereunder. If, during the Restriction Period, you terminate employment on account of death or disability (as determined by the Board), you (or your estate) shall become fully vested in the shares of Company Stock awarded hereunder and the employment requirement of this subparagraph (a) shall cease to apply.

(b) During the Restriction Period, the certificates representing the shares of Company Stock awarded hereunder shall be held by an escrow agent selected by the Company. At the end of the Restriction Period (or upon your earlier termination of employment on account of death or disability as determined under subparagraph (a), above, or upon a Change of Control under the circumstances described in subparagraph (c), below) the escrow agent shall deliver such certificates to you (or to your estate). During the Restriction Period you will be entitled to all dividends paid on the shares of Company Stock awarded hereunder and you will be entitled to instruct the escrow agent how to vote such shares.

(c) If there is a Change of Control (as hereinafter defined) and you are employed by the Company on the date of the Change of Control, you will become fully vested in the shares of Company Stock awarded hereunder and the employment requirement of subparagraph (b) shall cease to apply.

3. Definitions.

(a) "Change of Control" shall mean:

(i) The purchase or other acquisition (other than from the Company) by any persons, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")(excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either the then-outstanding shares of Common Stock of the Company or the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the date hereof, constitute the Board (as the date hereof, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person who becomes a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this section, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the Stockholders of the Company of a reorganization, merger or consolidation, in each case with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of, respectively, the common stock and the combined voting power entitled to vote generally in the elections of directors of the reorganized, merged or consolidated corporations' then-outstanding voting securities, or of a liquidation or dissolution of the Company or of the sale of all or substantially all of the assets of the Company.

(b) "Company Stock" means common stock of the Company as well as common stock trust receipts issued pursuant to the Deposit and Trust Agreement dated September 24, 1990 among the Company, Emerson Electric Co. and Boatmen's Trust Company, as Trustee.

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

Executed this 10th day of November, 1997

ESCO ELECTRONICS CORPORATION

By: /s/ PHILIP A. HUTCHISON

ATTEST: /s/ WALTER STARK

Secretary

AGREED TO AND ACCEPTED:

/s/ DENNIS J. MOORE

Dennis J. Moore

EXHIBIT 13

ESCO Electronics Corporation and Subsidiaries
FIVE-YEAR FINANCIAL SUMMARY

(Dollars in millions, except per share amounts)	1997(1)	1996(2)	1995(3)	1994	1993(4)
For years ended September 30:					
Net sales	$378.5	438.5	441.0	473.9	459.7
Interest expense	5.2	4.8	5.5	3.6	2.5
Earnings (loss) before income taxes	17.9	14.8	(29.5)	12.7	6.4
Net earnings (loss)	11.8	26.1	(30.3)	8.3	5.2
Earnings (loss) per share:					
Primary	.96	2.26	(2.76)	.72	.47
Fully diluted	.95	2.25	(2.76)	.72	.46
As of September 30:					
Working capital	62.3	86.2	71.4	86.6	76.8
Total assets	378.2	307.8	378.0	347.5	335.3
Long-term debt	50.0	11.4	23.5	25.1	8.1
Shareholders' equity	205.0	191.1	182.3	187.4	174.1

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

(2) Includes the sale of Hazeltine; $25.3 million of other charges related to cost of sales; and includes an adjustment to the income tax valuation reserve (See Footnotes 2, 6 and 14 of Notes to Consolidated Financial Statements).

(3) Includes $16.5 million of other charges related to cost of sales and a change in accounting estimate (See Notes 1(e) and 14 of Notes to Consolidated Financial Statements).

(4) Includes impact of Corporate Readjustment (See Note 1(b)).

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

BUSINESS ENVIRONMENT

ESCO Electronics Corporation (ESCO, the Company) operates within two primary business segments: commercial (primarily filtration/fluid flow and communications/test) and defense.

In 1997, the Company significantly strengthened its presence in the fast-growing and profitable filtration industry through its February 1997 acquisition of Filtertek, Inc. (Filtertek). Filtertek effectively increases the commercial content of the Company's sales to over 50% on an annualized basis. This substantial acquisition provides further evidence of management's strategy of deliberate diversification and its ongoing commitment to create shareholder value.

During 1997, the overall defense industrial base continued its rapid consolidation, and ESCO responded to this competitive challenge by continuing to reposition itself to compete in the global marketplace and to apply defense technologies to commercial products. Management continues to believe the Company's strong product diversification and technology niches in its core defense businesses will enable it to compete effectively in these shrinking defense markets.

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

Overall, 1997 was a successful and rewarding year for ESCO and its shareholders. The Company's defense segment returned to profitability and the commercial segment continued its strong growth. New program opportunities in both the defense and commercial segments, in addition to the acquisition of Filtertek, effectively reposition the Company's business base for the remainder of the decade. This should allow ESCO to increase its commercial segment contribution while continuing to reduce its overall dependence on its defense business.

ESCO's improved financial position and strong balance sheet at September 30, 1997 should allow the Company to continue its strategy of deliberate diversification through internal new product development and selective acquisitions, thereby increasing shareholder value.

RESULTS OF OPERATIONS

1997 COMPARED WITH 1996

Net sales of $378.5 million in 1997 were $60 million (13.7%) lower than net sales of $438.5 million in 1996. The decrease was primarily the result of the sale of Hazeltine in July 1996, partially offset by the acquisition of Filtertek in February 1997. Hazeltine's sales for the ten-month period of 1996 prior to its divestiture were $94 million, offset by Filtertek's eight-month sales of $48.6 million. Net sales at the remainder of the Company's operating units decreased $14.6 million in 1997 compared to 1996 due to lower sales volume at Systems & Electronics Inc. (SEI), partially offset by increased sales at all other operating units. In 1997, commercial sales were $187.5 million (49.5%) and defense sales were $191 million (50.5%) compared with 1996 commercial and defense sales of $137.6 million (31.4%) and $301 million (68.6%), respectively. The increase in 1997 commercial sales is primarily attributable to the acquisition of Filtertek and additional volume at PTI Technologies Inc. (PTI). Hazeltine's commercial sales were not significant in 1996.

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

Firm order backlog was $228.2 million at September 30, 1997, compared to $244 million at September 30, 1996. The decrease in backlog reflects the timing of receipt of orders and related sales throughout the various programs' life cycles, principally at SEI. Order backlog increased $24 million in conjunction with the February 1997 acquisition of Filtertek. As ESCO continues its transition towards a predominantly commercial company, backlog plays a less significant role as commercial products tend to be ordered by the customer and shipped by the Company within the same period. Approximately 11% of the September 30, 1997 backlog is expected to be delivered beyond one year.

Orders aggregating $338.7 million were received in 1997, compared with $296.2 million in 1996 (excluding Hazeltine), reflecting a $42.5 million (14.3%) increase. Orders during 1996 as reported including Hazeltine were $373.6 million. Orders received by Hazeltine in 1996 prior to its sale were $77.4 million, and orders received by Filtertek since February 1997 were $47.5 million. The largest increases in orders during 1997 were recorded at PTI, Rantec and EMC Test Systems, L.P. (EMC Test Systems), offset by decreased orders at SEI. The most significant orders in 1997 were for filtration/fluid flow products; M1000 tank transporters; airborne radar systems; EMC test equipment; integrated mail handling and sorting systems; and automatic meter reading equipment.

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

The gross profit margin in 1997 was 24.2% compared to 10.6% in 1996. The lower margin in 1996 was primarily attributable to two factors: a $23 million adjustment of the estimate of the costs to complete the 60K Loader program at SEI; and the components of other charges related to cost of sales as discussed below. The 1996 gross profit margin, if "adjusted" to exclude the 60K Loader adjustment and the other charges related to cost of sales would have been 21.6%. The improvement in 1997 gross margin compared to the "adjusted" 1996 gross margin is the result of a more favorable sales mix at all operating units. The gross profit margin attributable to the commercial segment was consistent in both periods presented.

During 1996, and in connection with the sale of Hazeltine and management's decision to pursue a strategy of deliberate diversification from defense to commercial, the Company reevaluated the carrying value of certain assets. As a result of this reevaluation, the Company recorded $25.3 million of other charges related to cost of sales in 1996. These strategic decisions were intended to increase the contributions of the commercial segment and to reduce the Company's overall dependence on the defense businesses.

The 1996 charge included $14.3 million of inventories related to defense programs which management no longer intended to actively pursue; $6 million of costs included in other assets incurred in anticipation of certain defense contract awards (Precontract Costs) which the Company no longer intended to actively pursue; and a $5 million adjustment in the Company's estimate of recoveries in a contract dispute related to the M1000 tank transporter program.

Selling, general and administrative expenses (SG&A) for 1997 were $64.1 million, or 16.9% of net sales, compared with $70.5 million, or 16.1% of net sales, for 1996. The 1997 SG&A expenses included $7.2 million for Filtertek and the 1996 SG&A included $12.9 million for Hazeltine. The net decrease in 1997 SG&A spending is the result of successful cost containment programs throughout the Company.

Interest expense increased to $5.2 million in 1997 from $4.8 million in 1996, primarily as a result of higher average outstanding borrowings throughout 1997. A significant amount of the outstanding borrowings in 1997 were incurred with the acquisition of Filtertek.

Other costs and expenses, net, decreased in 1997 to $4.5 million from $5 million in 1996, primarily due to lower miscellaneous non-operating costs.

The 1996 gain on the sale of Hazeltine represents the net gain after deducting selling costs and expenses and after adjusting for certain assets and liabilities retained by ESCO.

Income tax expense of $6.1 million for 1997 reflects current Federal tax expense of $.2 million, deferred tax expense of $4.8 million and foreign, state and local taxes of $1 million. Income tax benefit of $11.4 million for 1996 reflects an increase in net deferred tax assets of $27.7 million, of which $15.1 million was credited to additional paid-in capital. Foreign, state and local taxes amounted to $1.2 million in 1996.

Based on the Company's historical pretax income and losses, adjusted for significant items such as the facilities consolidation program, the change in accounting estimates and other costs related to cost of sales, together with management's projection of future taxable income based upon its shift in strategic direction, management believes it is more likely than not that the Company will realize a majority of the benefits of the net deferred tax asset existing at September 30, 1997. In order to realize the aforementioned net deferred tax asset, excluding the capital loss carryforward, the Company will need to generate future taxable income of approximately $175 million, of which $97 million is required to be realized prior to the expiration of the net operating loss (NOL) carryforwards, of which $23 million will expire in 2006; $6 million will expire in 2007; $23 million will expire in 2009; $38 million will expire in 2010; and $7 million will expire in 2011. These net operating loss carryforwards may be used to reduce future income tax cash payments.

As a result of the sale of Hazeltine, the Company has available capital loss carryforwards for tax purposes of approximately $77 million. This capital loss may be used as a reduction of future capital gains recognized by the Company, at which time the Company may realize additional tax benefits. Any unused capital loss carryforward will expire in 2001.

In 1997, the Company reduced its deferred tax valuation allowance by $3.7 million. The deferred tax valuation allowance of $39.6 million at September 30, 1997 includes approximately $12.5 million, which represents management's best estimate of the portion of the deferred tax asset associated with temporary differences and NOLs which may not be realized, and a full valuation reserve in the amount of $27.1 million for the portion of the deferred tax asset represented by the capital loss. There can be no assurance, however, that the Company will generate sufficient taxable income or a specified level of continuing taxable income in order to fully utilize the deferred tax assets in the future.

The effective tax rate in 1997 was 33.9% compared with (77%) in 1996. The tax provision for 1996 was impacted by the effect of the Hazeltine divestiture, the Corporate Readjustment implemented in 1993 and other items. An analysis of the effective tax rates for 1997, 1996 and 1995 is included in the notes to consolidated financial statements.

1996 COMPARED WITH 1995

Net sales of $438.5 million in 1996 were $2.5 million (0.6%) lower than net sales of $441 million in 1995. The decrease was primarily the result of the sale of Hazeltine in July 1996. Hazeltine's sales for the ten-month period of 1996 prior to its divestiture were $20.4 million lower than its full year's sales in 1995. Net sales at the remainder of the Company's operating units increased $17.9 million in 1996 compared to 1995 due to increased sales volume at SEI and PTI. In 1996, defense sales were $301 million (68.6%) and commercial sales were $137.5 million (31.4%) compared with 1995 defense and commercial sales of $345.1 million (78.2%) and $95.9 million (21.8%), respectively. Hazeltine's commercial sales were not significant in either period presented. The increase in 1996 commercial sales reflects additional volume primarily at SEI, PTI and EMC Test Systems.

The September 30, 1995 backlog of $528.2 million included $236.3 million related to Hazeltine. Firm order backlog was $244 million at September 30, 1996, compared to $291.9 million as adjusted to remove Hazeltine's backlog at September 30, 1995. The decrease in backlog as adjusted reflects the timing of receipt of orders and related sales throughout the various programs' life cycles, principally at SEI.

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

The gross profit margin in 1996 was 10.6% compared to 18.1% in 1995. The decrease in 1996 was primarily attributable to two factors: a $23 million adjustment of the estimate of the costs to complete the 60K Loader program at SEI; and the components of other charges related to cost of sales. The 1996 gross profit margin, excluding the 60K Loader adjustment and the other charges related to cost of sales would have been 21.6%, compared to the 1995 gross margin percentage of 21.8%, excluding the 1995 other charges related to cost of sales. The gross profit percentage attributable to the commercial segment increased slightly in 1996 compared to 1995 due to a favorable product sales mix.

During 1996, and in connection with the sale of Hazeltine and management's decision to pursue a strategy of deliberate diversification from defense to commercial, the Company reevaluated the carrying value of certain assets, resulting in the Company recording $25.3 million of other charges related to cost of sales in 1996. These strategic decisions were intended to increase the contributions of the commercial segment and to reduce the Company's overall dependence on the defense businesses.

The 1996 charge includes $14.3 million of inventories related to defense programs which management no longer intended to actively pursue; $6 million of costs included in other assets incurred in anticipation of certain defense contract awards (Precontract Costs) which the Company no longer intended to actively pursue; and a $5 million adjustment in the Company's estimate of recoveries in a contract dispute related to the M1000 tank transporter program.

The 1996 write-down of $14.3 million in inventories and $6 million of Precontract Costs was the result of management's decision to refocus its marketing efforts to products which could yield more immediate results. The inventories related to mature armament products which, in earlier years, were manufactured and sold in large quantities. Although this inventory had been in limited production in recent years, until 1996 these items were considered to have sufficient annual proposals outstanding to support potential future sales activity. No significant sales revenue was recognized in the periods presented. The 1996 write-off of $6 million of Precontract Costs related to a specific armament contract with the U.S. Navy. The Company incurred costs to build a prototype to satisfy the customer requirements. After repeated delays and modifications by the customer, the Company, as part of its shift in strategic direction, determined that further pursuit of this contract would not be cost beneficial. The $5 million adjustment related to the M1000 contract dispute was the result of the Company receiving information in 1996 which indicated the carrying value of certain M1000 claim costs may not be fully recoverable.

Other charges related to cost of sales of $16.5 million incurred during 1995 were related to the facilities consolidation program implemented in 1995. The 1995 charges included an $8.6 million pretax charge for a non-cash write-off related to the accounting for the lease on the 8100 West Florissant, St. Louis, Missouri (8100 Building) facilities which were vacated, and a $7.9 million non-cash pretax charge associated with the disposition of safety stock inventories resulting from the facilities consolidation program and related restructuring of the Company's West Coast operations.

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

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

Other costs and expenses, net, decreased in 1996 to $5 million from $29.5 million in 1995. The decrease is primarily due to the absence in 1996 of approximately $16.1 million in amortization of a contract guarantee fee previously paid to Emerson Electric Co. (Emerson) in connection with the spin-off of ESCO in 1990, and the absence of the $7.8 million charge for exit and relocation charges incurred in connection with the abandonment of the 8100 Building. The 1995 guarantee fee amortization of $16.1 million includes an $11.1 million non-cash charge for the Company's 1995 change in accounting estimate (see Note 1 (e)) related to the Emerson guarantee fee, and approximately $5 million of normal amortization.

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

Prior to 1996, the Company had reduced its deferred tax valuation allowance systematically by utilizing projected taxable income over a specified future period of time. In 1996, the Company reduced its beginning deferred tax valuation allowance by $15.8 million. Due to the 1993 Corporate Readjustment, $15.1 million of this reduction was credited directly to additional paid-in capital. The remaining $.7 million was credited directly to the tax provision.

Income tax expense for 1995 reflects foreign, state and local taxes.

The effective tax rate in 1996 was (77%) compared with (2.6%) in 1995. The tax provisions for both periods presented are impacted by the Corporate Readjustment implemented in 1993. The income tax benefits recognized in 1996 and 1995 of $15.1 million and $25.2 million, respectively, were accounted for as credits to additional paid-in capital.

CAPITAL RESOURCES AND LIQUIDITY

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

Net cash provided by operating activities in 1997 was $25.3 million compared to $1 million in 1996. The 1997 net cash provided by operating activities improved compared to 1996, net of the gain on the sale of Hazeltine, primarily due to the positive impact of 1997 operating earnings. The 1997 cash generation from inventories was partially offset by the investment in costs and estimated earnings on long-term contracts and the disbursement of accounts payable and accrued expenses.

Net cash provided by operating activities was $1 million in 1996, compared to net cash used by operating activities of $8.1 million in 1995. The 1996 net cash provided by operating activities improved compared to 1995 primarily due to lower investment in working capital, primarily inventories, in 1996.

In 1997, capital expenditures of $10.5 million included manufacturing equipment at Filtertek, SEI and PTI. In 1996, capital expenditures of $8.6 million included capitalized facility costs at SEI, process equipment at PTI and capital expenditures of $1.5 million related to Hazeltine. In 1995, capital expenditures of $11.1 million included capitalized facility costs and production test equipment at SEI and facility restoration costs at Rantec resulting from the 1994 California earthquake. There were no commitments outstanding that were considered material for capital expenditures at September 30, 1997.

At September 30, 1997, the Company had available net operating loss carryforwards (NOLs) for tax purposes of approximately $97 million. These NOLs will expire beginning in year 2006 and ending in year 2011. These NOLs will be used to reduce future Federal income tax cash payments.

On February 7, 1997, the Company completed the acquisition of the filtration and the thermoform packaging businesses (Filtertek) of Schawk, Inc. The transaction involved the purchase of assets and stock certain of subsidiary corporations of Schawk, Inc. for $92 million in cash plus working capital adjustments. The purchase was financed with cash and borrowings from the Company's bank credit facility. Filtertek is a leader in the manufacture of plastic insert injection molded filter assemblies.

In conjunction with the purchase of Filtertek, the existing bank credit facility was amended and restated as of February 7, 1997 to increase the available credit facility to $140 million, consisting of a $60 million term loan, and an $80 million revolving credit facility (subject to borrowing base asset limitations). The $60 million term loan has scheduled amortization payments of $1 million per quarter which commenced March 31, 1997. Beginning March 31, 1998, the term loan amortization changes to $2 million per quarter through maturity. The maturity of the bank credit facility is September 30, 2000. The bank credit facility allowed the Company to use a portion of the Hazeltine sales proceeds to pay the special cash distribution to shareholders in 1996 and to repurchase outstanding ESCO common shares in the open market. The revolving credit facility is available for direct borrowings and/or the issuance of letters of credit. These credit facilities are provided by a group of banks, led by Morgan Guaranty Trust Company of New York. At September 30, 1997, the Company had $58.8 million available under this revolving credit facility. The $8 million subordinated term loan was repaid in 1996.

In 1996, the Company authorized an open market share repurchase program for up to two million shares of common stock over a period ending September 30, 1998. During 1997, approximately 130,000 shares were repurchased.

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

All of the Company's debt is priced at a percentage over LIBOR. The Company has reduced this risk through a rate swap agreement that provides a cap on LIBOR of 7% on $50 million of the long-term debt. The Company does not have significant risk or exposure to fluctuations in foreign currencies.

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

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

NEW ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" and SFAS No. 129, "Disclosure of Information about Capital Structure." The Company will adopt the provisions of these pronouncements during the quarter ending December 31, 1997. The effect of adopting these provisions is not expected to be material.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." This Statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. All items that are required to be recognized under accounting standards as components of comprehensive income must be reported in a financial statement with the same prominence as other financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997.

Also in June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This Statement establishes standards for the manner in which public business enterprises report information about operating segments in interim and annual financial statements, and the related disclosures about products and services, geographic areas and major customers. The effect of adopting this provision is not expected to provide additional disclosures materially different than those previously disclosed by the Company, on an annual basis. SFAS No. 131 is effective for interim periods beginning after December 15, 1997.

ESCO Electronics Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended September 30, (Dollars in thousands, except per share amounts)	1997	1996	1995
Net sales	$378,524	438,543	441,023
Costs and expenses:			
Cost of sales	286,790	366,719	344,781
Other charges related to cost of sales	--	25,300	16,522
Selling, general and administrative expenses	64,142	70,464	74,162
Interest expense	5,220	4,781	5,549
Other, net	4,522	5,017	29,514
Gain on sale of Hazeltine	--	(48,500)	--
Total costs and expenses	360,674	423,781	470,528
Earnings (loss) before income tax	17,850	14,762	(29,505)
Income tax expense (benefit)	6,053	(11,374)	755
Net earnings (loss)	$11,797	26,136	(30,260)
Earnings (loss) per share:			
Primary	$ .96	2.26	(2.76)
Fully diluted	$ .95	2.25	(2.76)

See accompanying notes to consolidated financial statements.

ESCO Electronics Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

Years ended September 30, (Dollars in thousands)	1997	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,818	22,209
Accounts receivable, less allowance for doubtful accounts of $462 and $273 in 1997 and 1996, respectively	48,612	34,664
Costs and estimated earnings on long-term contracts, less progress billings of $56,451 and $70,671 in 1997 and 1996, respectively	54,633	51,585
Inventories	45,110	51,187
Other current assets	2,794	3,005
Total current assets	156,967	162,650
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	12,449	6,586
Buildings and leasehold improvements	43,573	27,974
Machinery and equipment	74,067	40,748
Construction in progress	4,913	5,043
	135,002	80,351
Less accumulated depreciation and amortization	38,470	26,325
Net property, plant and equipment	96,532	54,026
Excess of cost over net assets of purchased businesses, less accumulated amortization of $2,735 and $1,597 in 1997 and 1996, respectively	54,996	20,395
Deferred tax assets	48,510	53,326
Other assets	21,182	17,435
	$378,187	307,832

See accompanying notes to consolidated financial statements.

ESCO Electronics Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

Years ended September 30, (Dollars in thousands)	1997	1996
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings and current maturities of long-term debt	$ 25,500	1,300
Accounts payable	38,238	40,057
Advance payments on long-term contracts, less costs incurred of $1,624 and $5,478 in 1997 and 1996, respectively	6,348	8,336
Accrued expenses	24,590	26,771
Total current liabilities	94,676	76,464
Other liabilities	28,548	28,860
Long-term debt	50,000	11,375
Total liabilities	173,224	116,699
Commitments and contingencies	--	--
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $.01 per share, authorized 10,000,000 shares	--	--
Common stock, par value $.01 per share, authorized 50,000,000 shares; issued 12,478,328 and 12,415,346 shares in 1997 and 1996, respectively	125	124
Additional paid-in capital	194,663	192,967
Retained earnings since elimination of deficit of $60,798 at September 30, 1993	15,981	4,184
Cumulative foreign currency translation adjustments	196	107
Minimum pension liability	(181)	(1,869)
	210,784	195,513
Less treasury stock, at cost (689,945 and 566,622 common shares in 1997 and 1996, respectively)	(5,821)	(4,380)
Total shareholders' equity	204,963	191,133
	$378,187	307,832

See accompanying notes to consolidated financial statements.

ESCO Electronics Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended September 30, (In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Cumulative Foreign Currency Translation Adjustments	Minimum Pension Liability	Treasury Stock
Balance, September 30, 1994........	11,520	$115	183,623	8,308	(195)	--	(4,438)
Stock options and stock compensation plans............	54	1	1,343	--	--	--	30
Net loss.........................	--	--	--	(30,260)	--	--	--
Effect of Corporate Readjustment on taxes......................	--	--	25,239	--	--	--	--
Translation adjustments..........	--	--	--	--	487	--	--
Minimum pension liability........	--	--	--	--	--	(1,998)	--
Balance, September 30, 1995	11,574	116	210,205	(21,952)	292	(1,998)	(4,408)
Stock options and stock compensation plans............	841	8	3,214	--	--	--	28
Net earnings.....................	--	--	--	26,136	--	--	--
Effect of Corporate Readjustment on taxes......................	--	--	15,094	--	--	--	--
Cash distribution ($3.00 per share).....................	--	--	(35,546)	--	--	--	--
Translation adjustments..........	--	--	--	--	(185)	--	--
Minimum pension liability........	--	--	--	--	--	129	--
Balance, September 30, 1996........	12,415	124	192,967	4,184	107	(1,869)	(4,380)
Stock options and stock compensation plans............	63	1	1,696	--	--	--	45
Net earnings.....................	--	--	--	11,797	--	--	--
Purchases into treasury..........	--	--	--	--	--	--	(1,486)
Translation adjustments..........	--	--	--	--	89	--	--
Minimum pension liability........	--	--	--	--	--	1,688	--
Balance, September 30, 1997........	12,478	$125	194,663	15,981	196	(181)	(5,821)

See accompanying notes to consolidated financial statements.

ESCO Electronics Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended September 30, (Dollars in thousands)	1997	1996	1995
Cash flows from operating activities:			
Net earnings (loss)	$ 11,797	26,136	(30,260)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	14,423	13,486	14,042
Changes in operating working capital	(2,666)	5,852	(6,602)
Write-off of certain assets	--	25,300	19,744
Gain on sale of Hazeltine	--	(48,500)	--
Effect of deferred taxes on tax provision	4,816	(12,598)	(448)
Other	(3,033)	(8,698)	(4,595)
Net cash provided (used) by operating activities	25,337	978	(8,119)
Cash flows from investing activities:			
Capital expenditures	(10,526)	(8,558)	(11,146)
Divestiture/(acquisition) of businesses	(93,200)	110,000	(1,596)
Net cash provided (used) by investing activities	(103,726)	101,442	(12,742)
Cash flows from financing activities:			
Proceeds from long-term debt	60,000	--	4,490
Principal payments on long-term debt	(15,675)	(15,386)	(2,217)
Net increase (decrease) in short-term borrowings	18,500	(33,000)	15,500
Special cash distribution/purchases of common stock into treasury	(1,486)	(35,546)	--
Other	659	3,401	752
Net cash provided (used) by financing activities	61,998	(80,531)	18,525
Net increase (decrease) in cash and cash equivalents	(16,391)	21,889	(2,336)
Cash and cash equivalents at beginning of year	22,209	320	2,656
Cash and cash equivalents at end of year	$ 5,818	22,209	320
Changes in operating working capital:			
Accounts receivable, net	$ (2,997)	5,487	1,191
Costs and estimated earnings on long-term contracts, net	(3,048)	(14,382)	(7,140)
Inventories	18,618	20,730	(21,820)
Other current assets	734	(15)	2,625
Accounts payable	(8,522)	133	8,408
Advance payments on long-term contracts, net	(1,988)	(7,183)	9,180
Accrued expenses	(5,463)	1,082	954
	$ (2,666)	5,852	(6,602)
Supplemental cash flow information:			
Interest paid to third parties	$ 4,981	4,765	5,495
Income taxes paid	720	673	972

See accompanying notes to consolidated financial statements.

ESCO Electronics Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of ESCO Electronics Corporation (ESCO) and its wholly owned subsidiaries (the Company). All significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the 1997 presentation.

(b) BASIS OF PRESENTATION

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

Fair values of the Company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. The estimated fair value of each class of financial instruments approximated the related carrying value at September 30, 1997 and 1996.

(c) NATURE OF OPERATIONS

The Company is engaged in the research, development, manufacture, sale and support of a wide variety of defense and commercial systems and products. Defense items principally are supplied to the United States Government under prime contracts from the Army, Navy and Air Force and under subcontracts with their prime contractors, and are also sold to foreign customers. Commercial items are supplied to a variety of customers worldwide, and include filtration/fluid flow products serving the aerospace, automotive, industrial, medical/health care and fluid flow markets.

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

(d) USE OF ESTIMATES AND BUSINESS RISKS

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

Sales to the U.S. Government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense and other factors. Fluctuations and changes in any of these areas could materially impact the Company's financial statements in future years.

(e) ACCOUNTING CHANGES

Effective October 1995, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 requires that certain long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Additionally, SFAS No. 121 requires that certain long-lived assets to be disposed of be reported at the lower of carrying amount or fair value less costs to sell. The impact of the adoption of this standard was not material to the Company's financial statements.

Effective September 30, 1997, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 allows, and the Company elected, to continue its accounting under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." The Company adopted the provisions of SFAS No. 123 requiring disclosure of the pro forma effect on net earnings and earnings per share as if compensation cost had been recognized based upon the estimated fair value at the date of grant for options and performance shares.

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

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

(f) REVENUE RECOGNITION

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

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

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

(g) CASH AND CASH EQUIVALENTS

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

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

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

(i) INVENTORIES

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

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

(j) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed on accelerated methods over the estimated useful lives of the assets: buildings, 10-40 years; machinery and equipment, 5-10 years; and office furniture and equipment, 5-10 years. Leasehold improvements are amortized over the remaining term of the applicable lease or their estimated useful lives, whichever is shorter.

(k) EXCESS OF COST OVER NET ASSETS OF PURCHASED BUSINESSES

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

(l) INCOME TAXES

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

(m) RESEARCH AND DEVELOPMENT COSTS

Company-sponsored research and development costs include research and development and bid and proposal efforts related to U.S. Government and commercial products and services. Company-sponsored product development costs are charged to expense when incurred. Customer-sponsored research and development costs incurred pursuant to contracts are accounted for similar to other program costs.

(n) FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign operations are translated into U.S. dollars in accordance with SFAS No. 52, "Foreign Currency Translation." The resulting translation adjustments are recorded as a separate component of shareholders' equity.

(o) EARNINGS (LOSS) PER SHARE

Earnings per share are based on the weighted average number of common shares outstanding plus shares issuable upon the assumed exercise of dilutive common share options and performance shares by using the treasury stock method. For 1997, earnings per share is computed using 12,273,588 and 12,425,577 common shares and common share equivalents outstanding for primary and fully diluted, respectively. For 1996, earnings per share is computed using 11,579,840 and 11,638,408 common shares and common share equivalents outstanding for primary and fully diluted, respectively. Loss per share is based on the weighted average number of common shares outstanding. For 1995, loss per share is computed using 10,973,315 common shares outstanding.

2. ACQUISITIONS/ DIVESTITURES (UNAUDITED)

On February 7, 1997, the Company completed the acquisition of the filtration and the thermoform packaging businesses (Filtertek) of Schawk, Inc. The transaction involved the purchase of assets and stock of certain subsidiary corporations of Schawk, Inc. for $92 million in cash plus working capital adjustments. Filtertek is a leader in the manufacture of plastic insert injection molded filter assemblies.

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

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

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

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 acquired and liabilities assumed based on estimated fair values at the date of acquisition. The excess cost of the acquisitions over the estimated fair value of the net assets acquired is being amortized on a straight-line basis over periods ranging from 15-40 years, depending on management's assessment of its useful life. The financial results from these acquisitions have been included in the Company's financial statements from the date of acquisition.

The following unaudited pro forma financial information assumes the acquisition of Filtertek and the divestiture of Hazeltine had occurred on October 1, 1995. The pro forma summary is not necessarily indicative of the results of operations that would have occurred had the acquisition and divestiture been completed on October 1, 1995, or of future results of operations.

Years ended September 30, (Dollars in thousands)	Pro forma (Unaudited) 1997	1996
Net sales	$403,229	422,710
Net earnings	11,272	25,622
Earnings per share:		
Primary	.92	2.21
Fully diluted	.91	2.20

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30, 1997 and 1996:

(Dollars in thousands)	1997	1996
U.S. Government and prime contractors	$11,191	9,459
Commercial	35,482	17,596
Other	1,939	7,609
Total	$48,612	34,664

The increase in commercial accounts receivable is primarily due to the acquisition of Filtertek.

4. INVENTORIES

Inventories consist of the following at September 30, 1997 and 1996:

(Dollars in thousands)	1997	1996
Finished goods	$ 8,542	5,927
Work in process -- including long-term contracts	22,971	32,071
Raw materials	13,597	13,189
Total	$ 45,110	51,187

Under the contractual arrangements by which progress payments are received, the U.S. Government has a security interest in the inventories associated with specific contracts. Inventories are net of progress payment receipts of $3.2 million and $1.2 million at September 30, 1997 and 1996, respectively.

The $25.3 million of other charges related to cost of sales in 1996 included $14.3 million in expense related to inventories adjusted to net realizable value in conjunction with the Company's deliberate diversification strategy. The $16.5 million of other charges related to cost of sales in 1995 included $7.9 million in expense related to inventories adjusted to net realizable value in conjunction with the facilities consolidation program.

5. PROPERTY, PLANT AND EQUIPMENT

Depreciation and amortization of property, plant and equipment for the years ended September 30, 1997, 1996 and 1995 were $12,441,000, $12,163,000 and $12,695,000, respectively.

The Company leases certain real property, equipment and machinery under noncancelable operating leases. Rental expense under these operating leases for the years ended September 30, 1997, 1996 and 1995 amounted to $4,502,000, $4,759,000 and $7,187,000, respectively. Future aggregate minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 1997 are:

(Dollars in thousands) Years ending September 30:	
1998	$ 3,941
1999	2,877
2000	2,232
2001	1,848
2002 and thereafter	2,520
Total	$13,418

6. INCOME TAX EXPENSE (BENEFIT)

The principal components of income tax expense (benefit) for the years ended September 30, 1997, 1996 and 1995 consist of:

(Dollars in thousands)	1997	1996	1995
Federal:			
Current	$ 223	--	133
Deferred	4,816	(12,598)	(448)
State, local and foreign	1,014	1,224	1,070
Total	$6,053	(11,374)	755

The actual income tax expense for the years ended September 30, 1997, 1996 and 1995 differs from the expected tax expense for those years (computed by applying the U.S. Federal statutory rate) as follows:

	1997	1996	1995
Federal corporate statutory rate	35.0%	35.0%	35.0%
Effect of Corporate Readjustment on temporary differences	--	102.2	(85.5)
Net change in the balance of the tax valuation allowance	(6.8)	100.2	51.8
Effect of subsidiary divestiture on temporary differences	--	(314.0)	--
Net interest income attributable to long-term contracts	--	--	0.5
Income taxes, net of Federal benefits:			
State and local	2.7	4.3	1.4
Foreign	(1.1)	1.1	1.4
Other, net	4.1	(5.8)	(7.2)
Effective income tax rate	33.9%	(77.0)%	(2.6)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 1997, 1996 and 1995 are presented below:

(Dollars in thousands)	1997	1996	1995
Deferred tax assets:			
Inventories, long-term contract accounting, contract cost reserves and others	$ 7,371	14,538	601
Pension and other postretirement benefits	10,272	9,402	9,538
Net operating loss carryforwards	34,036	42,188	39,366
Capital loss carryforwards	27,074	30,567	--
Other compensation-related costs and other cost accruals	11,960	2,948	11,278
Total deferred tax assets	90,713	99,643	60,783
Deferred tax liabilities:			
Plant and equipment, depreciation methods and acquisition asset allocations	(2,640)	(3,011)	(6,609)
Net deferred tax asset before valuation allowance	88,073	96,632	54,174
Less valuation allowance	(39,563)	(43,306)	(28,537)
Net deferred tax asset	$ 48,510	53,326	25,637

Management believes it is more likely than not that with its projections of future taxable income, its shift in strategic direction, and after consideration of the valuation allowance, the Company will generate sufficient taxable income to realize the benefits of the net deferred tax assets existing at September 30, 1997.

In order to fully realize the deferred tax assets existing at September 30, 1997, the Company will need to generate future taxable income of approximately $175 million of which $97 million is required to be realized prior to the expiration of the net operating loss (NOL) carryforwards, of which $23 million will expire in 2006; $6 million will expire in 2007; $23 million will expire in 2009; $38 million will expire in 2010; and $7 million will expire in 2011. Also, the Company will need to generate future capital gains of approximately $77 million prior to 2001, at which time the capital loss carryforward, resulting from the 1996 divestiture of Hazeltine, will expire. There can be no assurance, however, that the Company will generate any taxable income or any specific level of continuing taxable income.

During the year ended September 30, 1997, the Company reduced its net deferred tax asset valuation allowance to $39.6 million. A full valuation allowance of $27.1 million is being maintained against the deferred tax asset associated with the capital loss. The remaining balance of $12.5 million represents management's best estimate of the portion of deferred tax asset associated with temporary differences and NOLs which may not be realized.

7. DEBT

Long-term debt consists of the following at September 30, 1997 and 1996:

(Dollars in thousands)	1997	1996
Term loan	$57,000	12,675
Less current maturities	7,000	1,300
Long-term debt	$50,000	11,375

In conjunction with the purchase of Filtertek, the existing bank credit facility was amended and restated as of February 7, 1997 to increase the available credit facility to $140 million, consisting of a $60 million term loan, and an $80 million revolving credit facility (subject to borrowing base asset limitations). The $60 million term loan has scheduled amortization payments of $1 million per quarter which commenced March 31, 1997. Beginning March 31, 1998, the term loan amortization changes to $2 million per quarter through maturity. The maturity of the bank credit facility is September 30, 2000. The bank credit facility allowed the Company to use a portion of the Hazeltine sales proceeds to pay the special cash distribution to shareholders in 1996 and to repurchase outstanding ESCO common shares in the open market. The revolving credit facility is available for direct borrowings and/or the issuance of letters of credit. These credit facilities are provided by a group of banks, led by Morgan Guaranty Trust Company of New York. At September 30, 1997, the Company had $58.8 million available under this revolving credit facility.

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

During 1997 and 1996, the maximum aggregate short-term borrowings at any month-end were $55 million and $50 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were $24.7 million and $35.1 million, respectively; and the weighted average interest rates were 6.9% in both periods. The weighted average interest rate throughout 1995 was 7.3%. The letters of credit issued and outstanding under the credit facility totaled $2.7 million and $6.4 million at September 30, 1997 and 1996, respectively. Borrowings under the revolving credit facility were $18.5 million at September 30, 1997.

The $8 million subordinated term loan payable to Textron, Inc. issued in connection with the purchase of PTI was repaid in 1996.

8. CAPITAL STOCK

The 12,478,328 and 12,415,346 common shares as presented in the accompanying consolidated balance sheets at September 30, 1997 and 1996 represent the actual number of shares issued at the respective dates. The Company held 689,945 and 566,622 common shares in treasury at September 30, 1997 and 1996, respectively.

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

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

	1997		1996		1995	
	Shares	Estimated Avg. Price	Shares	Estimated Avg. Price	Shares	Estimated Avg. Price
October 1, ...	889,930	$ 6.04	1,135,301	$ 5.77	1,135,402	$5.77
Granted	227,450	$ 10.78	497,250	$ 10.38	88,000	$9.25
Exercised	(68,371)	$ 6.87	(806,255)	$ 5.77	(55,434)	$5.56
Cancelled	(50,523)	$ 9.28	(119,257)	$ 10.31	(32,667)	$9.31
Repricing	--	--	182,891	$ 8.06	--	--
September 30, ...	998,486	$ 6.18	889,930	$ 6.04	1,135,301	$5.77
At September 30,						
Reserved for						
future grant	165,984					
Exercisable	404,387	$ 6.18	264,265	$ 6.04	707,617	$5.77

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

During 1993 and 1997, the Board of Directors authorized, and the shareholders approved, the Performance Share Plans (the Plans). The maximum number of shares available for issue under the Plans is 875,000 shares. At September 30, 1997, 566,303 shares have been awarded, and are outstanding under the terms of the Plans.

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

The Company adopted the disclosure-only provisions of SFAS No. 123. Under APB No. 25, no compensation cost was recognized for the Company's stock option plans. Had compensation cost for the Company's stock option plans and performance share plans been determined based on the fair value at the grant date for awards in 1997 and 1996 consistent with the provisions of this statement, the Company's net earnings and net earnings per share would have been as follows:

(Dollars in thousands, except per share amount)	1997	1996
Net earnings	$10,858	25,392
Net earnings per share:		
Primary	.88	2.19
Fully diluted	.87	2.18

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 1997 and 1996: expected dividend yield 0%, expected volatility 35.45%, risk-free interest rate 6.299% and expected life based on historical exercise periods of 3.68 years.

To determine the fair value of grants under the 1997 Performance Share Plan, the probability that performance milestones would be met were applied to the ESCO stock price on the date of grant. This probability was based on an estimated average annual growth rate of 11.9% and an annualized volatility of 35.45%.

9. RETIREMENT AND OTHER BENEFIT PLANS

Substantially all employees are covered by defined benefit or defined contribution pension plans maintained by the Company for the benefit of its employees. Benefits are provided to employees under defined benefit pay-related and flat-dollar plans which are primarily noncontributory. Annual contributions to retirement plans equal or exceed the minimum funding requirements of the Employee Retirement Income Security Act or applicable local regulations. Pension expense for the years ended September 30, 1997, 1996 and 1995 is comprised of the following:

(Dollars in millions)	1997	1996	1995
Defined benefit plans:			
Service cost (benefits earned during the period)	$ 3.3	3.2	3.1
Interest cost	5.4	5.0	4.9
Actual return on plan assets	(19.0)	(5.5)	(5.0)
Net amortization and deferral	13.5	.8	.7
Net periodic pension expense	3.2	3.5	3.7
Other	--	--	.1
Defined contribution plans	.4	2.1	2.6
Total	$ 3.6	5.6	6.4

The funded status of the Company's defined benefit pension plans at September 30, 1997 and 1996 is shown below:

(Dollars in millions)	1997	1996
Accumulated benefit obligation, including vested benefit obligation of $59.4 and $53.7 at September 30, 1997 and 1996, respectively	$63.1	57.3
Projected benefit obligation	77.6	71.0
Plan assets at fair value, primarily corporate equity and fixed income securities	78.9	58.4
Projected benefit obligation in excess of (less than) plan assets	(1.3)	12.6
Unrecognized transition amount	--	--
Unrecognized net gain (loss)	12.2	(2.9)
Unrecognized prior service costs	(2.5)	(.3)
Additional minimum liability	2.3	1.8
Net pension liability (included in other liabilities)	$10.7	11.2

The Company has overfunded and underfunded defined benefit plans at September 30, 1997. The majority of the plans are overfunded. The projected benefit obligation and the assets of the underfunded plans represent approximately 3% and 2% of the total consolidated projected benefit obligation and the plan assets, repectively.

The benefit obligations of the defined benefit plans as of September 30, 1997 and 1996 were both based on a discount rate of 7.5%, and an assumed rate of increase in compensation levels of 4%. The 1997, 1996 and 1995 pension expense for the defined benefit plans was based on a 7.5%, 7.5% and 8.5% discount rate, respectively; a 4%, 4% and 4.75% increase in compensation levels, respectively; and a 10% expected long-term rate of return on plan assets.

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

Net periodic postretirement benefit cost is comprised of the following:

(Dollars in millions)	1997	1996	1995
Service cost	$ .2	.2	.3
Interest cost	1.2	1.3	1.4
Other	--	--	(.1)
Net periodic postretirement benefit cost	$1.4	1.5	1.6

Accumulated postretirement benefit obligation for 1997 and 1996 by component is as follows:

(Dollars in millions)	1997	1996
Retirees	$12.1	13.2
Fully eligible active plan participants	.5	.5
Other active participants	3.0	3.0
Total accumulated postretirement benefit obligation	15.6	16.7
Plan assets	--	--
Accumulated postretirement benefit obligation in excess of plan assets	15.6	16.7
Unrecognized prior service cost	.1	.1
Unrecognized net gain	.1	.1
Accrued postretirement benefit obligation (included in other liabilities)	$15.8	16.9

The accumulated postretirement benefit obligations of the plans as of September 30, 1997 and 1996 were both based on a discount rate of 7.5%. The September 30, 1996 accumulated postretirement benefit obligation was based on a health care cost trend of 8% for fiscal 1997, gradually grading down to an ultimate rate of 5.5% by fiscal 2002. The September 30, 1997 accumulated postretirement benefit obligation was based on a health care cost trend of 7.5% for fiscal 1998, gradually grading down to an ultimate rate of 5.5% by fiscal 2002. A 1% increase in the health care cost trend rate for each year would increase the September 30, 1997 accumulated postretirement benefit obligation by approximately $375,000.

The 1997, 1996 and 1995 net periodic postretirement benefit costs were based on a discount rate of 7.5%, 7.5% and 8.5%, respectively. The net periodic postretirement benefit cost was based on an assumed health care cost trend of 8%, 8.5% and 9% for fiscal 1997, 1996 and 1995, respectively, gradually grading down to 5.5% by fiscal 2002. A 1% increase in the health care cost trend rate for each year would increase the aggregate of the service cost and interest cost components of the 1997 net periodic postretirement benefit cost by approximately $35,000.

10. OTHER FINANCIAL DATA

Items charged to operations during the years ended September 30, 1997, 1996 and 1995 included the following:

(Dollars in thousands)	1997	1996	1995
Maintenance and repairs	$ 5,828	5,826	5,664
Salaries and wages	113,953	136,783	147,813
Research and development costs:			
Company-sponsored	6,161	11,905	15,067
Customer-sponsored	6,341	3,894	10,056
Total	$ 12,502	15,799	25,123

The decreases in 1997 and 1996 research and development costs is due to the divestiture of Hazeltine in 1996.

Accrued expenses included accrued employee compensation of $9,300,000 and $8,820,000 at September 30, 1997 and 1996, respectively.

11. BUSINESS SEGMENT INFORMATION

The Company's principal business segments are defense and commercial. Summarized below is the Company's business segment information for the years ended September 30, 1997, 1996 and 1995. Sales between segments have been eliminated. Corporate expenses and assets have been allocated to the segment data on a systematic basis. Hazeltine primarily operated within the defense segment prior to its divestiture in 1996. Filtertek is included in the commercial results for 1997. Operating profit (loss) is calculated as: net sales, less cost of sales, less other charges related to cost of sales, less selling, general and administrative expenses.

(Dollars in thousands)	1997	1996	1995
Net sales:			
Defense	$191,039	300,970	345,076
Commercial	187,485	137,573	95,947
	$378,524	438,543	441,023
Operating profit (loss):			
Defense	$ 13,408	(31,842)	2,812
Commercial	14,184	7,902	2,746
	$ 27,592	(23,940)	5,558
Identifiable assets:			
Defense	$166,063	191,588	283,617
Commercial	212,124	116,244	94,384
	$378,187	307,832	378,001
Depreciation and amortization:			
Defense	$ 4,644	8,001	9,955
Commercial	9,779	5,485	4,087
	$ 14,423	13,486	14,042
Capital expenditures:			
Defense	$ 3,131	5,204	7,859
Commercial	7,395	3,354	3,287
	$ 10,526	8,558	11,146

Net sales derived from U.S. Government agencies, either through direct sales or through prime contractors, totaled $164,660,000, $231,503,000 and $307,970,000 for the years ended September 30, 1997, 1996 and 1995, respectively.

International sales included in net sales for the years ended September 30, 1997, 1996 and 1995 are as follows:

(Dollars in thousands)	1997	1996	1995
Europe	$31,075	53,856	44,111
Middle East	6,024	19,223	27,314
Far East	17,773	48,391	32,362
Other	13,954	23,215	25,308
Total	$68,826	144,685	129,095

The decrease in 1997 international sales reflects the divestiture of Hazeltine in July 1996 and lower Middle East sales at SEI; offset by the addition of Filtertek ($10.3 million, primarily Europe) and higher volume at all other operating units. Hazeltine's international sales for 1996 and 1995 were $58.6 million and $58.4 million, respectively.

12. TRANSACTIONS WITH EMERSON

(a) CONTRACT GUARANTEE ARRANGEMENT

Emerson has directly or indirectly guaranteed or is otherwise liable for the performance of most of the Company's contracts with its customers which existed at September 30, 1990 (the Guaranteed Contracts). The Guaranteed Contracts include certain U.S. Government contracts entered into by the Company prior to September 30, 1990. As of September 30, 1997, the aggregate backlog of all firm orders received by the Company included Guaranteed Contracts of $4,151,000. At September 30, 1997, there were open letters of credit with an aggregate value of $2,443,000 related to foreign advance payments in support of various contracts that are directly or indirectly guaranteed by Emerson.

In consideration of these guarantees, and in connection with the spin-off, the Company paid Emerson a guarantee fee of $7,400,000 per year during the five-year period ended September 30, 1995.

(b) LEASE AND BUILDING SERVICES

SEI, as tenant, entered into a building lease and a services agreement with Emerson effective October 1, 1990. The building lease and services agreement was terminated as of September 30, 1995. Rental expense under this lease and other expenses for related building services aggregated $4,244,000 for the year ended September 30, 1995.

13. COMMITMENTS AND CONTINGENCIES

At September 30, 1997, the Company had $5,103,000 in letters of credit outstanding as guarantees of contract performance.

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

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

14. OTHER CHARGES RELATED TO COST OF SALES AND OTHER COSTS AND EXPENSES

During 1996, and in conjunction with the sale of Hazeltine and management's decision to pursue a strategy of deliberate diversification from defense to commercial, the Company reevaluated the carrying value of certain assets. As a result of this reevaluation, the Company recorded $25.3 million of other charges related to cost of sales in 1996.

The 1996 charge includes $14.3 million of inventories related to defense programs which the Company no longer intended to actively pursue; $6 million of costs included in other assets incurred in anticipation of certain defense contract awards which the Company is no longer actively pursuing; and a $5 million adjustment in the Company's estimate of recoveries in a contract dispute related to the M1000 Trailer program.

Other charges related to cost of sales of $16.5 million incurred during 1995 were related to the facilities consolidation program implemented in 1995. The 1995 charges include an $8.6 million pretax charge for a non-cash write-off related to the accounting for the lease on the 8100 West Florissant, St. Louis, Missouri facilities which were vacated and a $7.9 million non-cash pretax charge associated with the disposition of inventories resulting from the consolidation program and related restructuring of the Company's West Coast operations.

The 1997 and 1996 other costs and expenses, net of $4.5 million and $5 million includes miscellaneous non-operating charges. The 1995 other costs and expenses, net of $29.5 million includes: $16.1 million in amortization of a contract guarantee fee previously paid to Emerson ($5 million of normal amortization and an $11.1 million adjustment related to the change in accounting estimate, see Note 1 (e)); $7.8 million of exit and relocation costs incurred in connection with the abandonment of the 8100 Building; and $5.6 million of miscellaneous non-operating charges.

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1997					
Net sales	$ 68,899	88,811	109,348	111,466	378,524
Gross profit	16,960	22,427	25,513	26,834	91,734
Net earnings	2,182	2,767	3,330	3,518	11,797
Earnings per share:					
Primary	$ .18	.23	.27	.28	.96
Fully diluted	.18	.23	.27	.28	.95
1996					
Net sales	$112,610	117,444	109,103	99,386	438,543
Gross profit (loss)	23,420	25,108	(23,794)	21,790	46,524
Gain on sale of Hazeltine	--	--	--	(48,500)	(48,500)
Net earnings (loss)	1,922	2,414	(19,411)	41,211	26,136
Earnings (loss) per share:					
Primary	$ .17	.20	(1.72)	3.47	2.26
Fully diluted	.17	.20	(1.72)	3.46	2.25

Gross profit (loss) is computed as net sales, less cost of sales, less other charges related to cost of sales.

The 1997 quarterly financial information includes the results of Filtertek subsequent to the February 1997 acquisition.

The 1996 quarterly financial information reflects the impact of the July 1996 sale of Hazeltine and the related gain, as well as the third quarter write-off of certain assets.

ESCO Electronics Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's management is responsible for the preparation and integrity of the financial information contained in this Annual Report. Management believes that the consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and that the other information in this Annual Report is consistent with those principles. In preparing the consolidated financial statements, management makes informed judgments and estimates where necessary to reflect the expected effects of events and transactions that have not been completed.

In meeting its responsibility for the reliability of the consolidated financial statements, management relies on a system of internal accounting controls. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in accordance with generally accepted accounting principles. The design of this system recognizes that errors or irregularities may occur and that estimates and judgments are required to assess the relative cost and expected benefits of the controls. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected within a timely period.

The Board of Directors monitors management's administration of the Company's financial and accounting policies and practices, and the preparation of these consolidated financial statements. The Audit and Finance Committee, which is comprised solely of Directors who are not employees of the Company, meets with management and the internal auditors periodically to review their activities. The Audit and Finance Committee also meets periodically with representatives of KPMG Peat Marwick LLP who have free access to the Audit and Finance Committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters, as well as management advisory services. The consolidated financial statements have been audited by KPMG Peat Marwick LLP, whose report appears below.

INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS AND SHAREHOLDERS
ESCO ELECTRONICS CORPORATION:

We have audited the accompanying consolidated balance sheets of ESCO Electronics Corporation and subsidiaries as of September 30, 1997 and 1996, 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, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ESCO Electronics Corporation and subsidiaries as of September 30, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1997, in conformity with generally accepted accounting principles.

St. Louis, Missouri
November 10, 1997

ESCO Electronics Corporation and Subsidiaries

SHAREHOLDERS' SUMMARY

SHAREHOLDERS' ANNUAL MEETING

The Annual Meeting of the shareholders of ESCO Electronics Corporation will be held at 10 a.m. Thursday, February 12, 1998, at the offices of Systems & Electronics Inc., 201 Evans Lane, St. Louis County, Missouri 63121. Notice of the meeting and a proxy statement were sent to shareholders with this Annual Report.

10-K REPORT

A copy of the Company's 1997 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders without charge. Direct your written request to the Investor Relations Department, ESCO Electronics Corporation, 8888 Ladue Road, Suite 200, St. Louis, Missouri 63124.

INVESTOR RELATIONS

Additional investor-related information from interested parties may be obtained by contacting the Director of Investor Relations at (314) 213-7277.

TRANSFER AGENT AND REGISTRAR

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

Transfer Agent/Registrar
ChaseMellon Shareholder Services, L.L.C.
85 Challenger Road
Ridgefield Park, NJ 07660-2108
1 (800) 851-9677
E-mail: SHRRELATION@CHASEMELLON.COM

CAPITAL STOCK INFORMATION

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

There were approximately 9,100 holders of record of trust receipts representing shares of common stock at September 30, 1997.

FORWARD-LOOKING INFORMATION

The statements contained in the Chairman's message (pgs. 2-3), the Commercial and Defense business summaries (pgs. 4-9), and Management's Discussion and Analysis concerning the Company's future revenues, profitability, financial resources, product mix, market demand and product development are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to: changing priorities or reductions in the U.S. and worldwide defense budgets; termination of government contracts due to unilateral government action or the Company's failure to perform; delivery delays or defaults by customers; performance issues with key suppliers and subcontractors; the Company's successful execution of internal operating plans; and collective bargaining labor disputes.

COMMON STOCK MARKET PRICES

The Company's common stock trust receipts and the underlying common stock and associated preferred stock purchase rights (subsequently referred to as common stock) are listed on the New York Stock Exchange under the symbol "ESE." The following table summarizes the high and low prices (excluding the impact in 1996 of the $3.00 per share cash distribution paid September 27, 1996) of the Company's common stock for each quarter of 1997 and 1996:

	1997		1996	
Quarter	High	Low	High	Low
First.........	10 3/8	8 5/8	9 3/4	7 7/8
Second........	13 1/4	9 7/8	14	8 7/8
Third.........	12 13/16	9 5/8	14 5/8	10 7/8
Fourth........	18 1/4	12 3/8	13 1/4	10 1/4

EXHIBIT 21

SUBSIDIARIES OF
ESCO ELECTRONICS CORPORATION

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

Exhibit 23

Independent Auditors' Consent

The Board of Directors
ESCO Electronics Corporation:

We consent to incorporation by reference in the registration statements (Nos. 33-39737, 33-47916, and 33-98112) on Form S-8 of ESCO Electronics Corporation of our report dated November 10, 1997, relating to the consolidated balance sheets of ESCO Electronics Corporation and subsidiaries as of September 30, 1997 and 1996, 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, 1997, which report appears in the September 30, 1997 Annual Report on Form 10-K of ESCO Electronics Corporation.

KPMG Peat Marwick LLP

St. Louis, Missouri
December 19, 1997

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SEP-30-1997
OCT-01-1996
SEP-30-1997
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45,110
156,967
135,002
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125
204,838
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378,524
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350,932
4,522
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5,220
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6,053
11,797
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0
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11,797
.96
.95

This number does not include 54.6 million of costs and Estimated Earnings on Long-Term Contracts.