

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2004

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 1-10596

ESCO TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

MISSOURI 43-1554045  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

8888 LADUE ROAD, SUITE 200 63124-2090  
ST. LOUIS, MISSOURI (Zip Code)  
(Address of principal executive offices)

Registrant's telephone number, including area code:(314) 213-7200

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No\_\_\_\_

The number of shares of the registrant's common stock outstanding at January 31, 2005 was 12,609,659.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(Dollars in thousands, except per share amounts)

	Three Months Ended December 31, -----	
	2004 ----	2003 ----
Net sales	\$ 104,375	96,396
Costs and expenses:		
Cost of sales	68,509	66,270
Selling, general and administrative expenses	19,813	18,769
Interest income	(481)	(36)
Other (income) expenses, net	(453)	614
	----	---
Total costs and expenses	87,388	85,617
Earnings before income taxes	16,987	10,779
Income tax expense	6,464	4,191
	-----	-----
Net earnings from continuing operations	10,523	6,588

Loss from discontinued operations, net of tax benefit of

\$(656) in fiscal 2004

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(437)

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Net earnings	\$	10,523	6,151
		=====	=====
Earnings (loss) per share:			
Basic - Continuing operations	\$	0.82	0.51
- Discontinued operations		-	(0.03)
		- - - -	- - - -
- Net earnings	\$	0.82	0.48
		=====	=====
Diluted			
- Continuing operations	\$	0.80	0.50
- Discontinued operations		-	(0.04)
		- - - -	- - - -
- Net earnings	\$	0.80	0.46
		=====	=====

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands)

	December 31, 2004 ----	September 30, 2004 ----
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 60,357	72,281
Accounts receivable, net	69,248	77,729
Costs and estimated earnings on long-term contracts, less progress billings of \$1,703 and \$2,210, respectively	2,957	2,476
Inventories	48,204	44,287
Current portion of deferred tax assets	22,320	27,810
Other current assets	8,408	8,947
	-----	-----
Total current assets	211,494	233,530
Property, plant and equipment, net	69,496	69,103
Goodwill	69,437	68,949
Other assets	31,185	30,858
	-----	-----
	\$381,612	402,440
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ 126	151
Accounts payable	28,598	32,455
Advance payments on long-term contracts, less costs incurred of \$9,627 and \$8,017, respectively	3,303	4,305
Accrued salaries	8,048	11,896
Accrued taxes	3,072	4,454
Accrued other expenses	13,772	15,061
	-----	-----
Total current liabilities	56,919	68,322
Deferred income	2,623	2,738
Pension obligations	13,905	13,899
Other liabilities	9,580	9,497
Long-term debt	407	368
	---	---
Total liabilities	83,434	94,824
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 14,184,571 and 14,148,902 shares, respectively	142	142
Additional paid-in capital	223,247	221,711
Retained earnings	126,486	115,963
Accumulated other comprehensive loss	(279)	(3,698)
	-----	-----
Total shareholders' equity	349,596	334,118
Less treasury stock, at cost: 1,591,413 and 1,257,352 common shares, respectively	(51,418)	(26,502)
	-----	-----
Total shareholders' equity	298,178	307,616
	-----	-----
	\$381,612	402,440
	=====	=====

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(Dollars in thousands)

	Three Months Ended December 31,	
	2004	2003
Cash flows from operating activities:		
Net earnings	\$10,523	6,151
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net loss from discontinued operations, net of tax	-	437
Depreciation and amortization	3,119	2,841
Changes in operating working capital	(1,265)	210
Effect of deferred taxes	1,122	487
Other	781	3,246
	---	-----
Net cash provided by operating activities- continuing operations	14,280	13,372
Net cash used by discontinued operations	-	(517)
	---	-----
Net cash provided by operating activities	14,280	12,855
Cash flows from investing activities:		
Capital expenditures- continuing operations	(2,013)	(2,513)
Capital expenditures- discontinued operations	-	(1,278)
	-----	-----
Net cash used by investing activities	(2,013)	(3,791)
Cash flows from financing activities:		
Net decrease in short-term borrowings	-	(3,000)
Principal payments on long-term debt	(42)	(37)
Purchases of common stock into treasury	(24,928)	-
Other (including exercise of stock options)	779	310
	---	---
Net cash used by financing activities	(24,191)	(2,727)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(11,924)	6,337
Cash and cash equivalents, beginning of period	72,281	31,285
	-----	-----
Cash and cash equivalents, end of period	\$ 60,357	37,622
	=====	=====

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required by accounting principles generally accepted in the United States of America (GAAP). For further information refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

The results for the three month period ended December 31, 2004 are not necessarily indicative of the results for the entire 2005 fiscal year.

2. DISCONTINUED OPERATIONS - 2004

Microfiltration and Separations Businesses (MicroSep) - The MicroSep businesses consisted of PTI Advanced Filtration Inc., PTI Technologies Limited, and PTI S.p.A. Effective April 2, 2004, the Company completed the sale of PTI Advanced Filtration Inc. (Oxnard, California) and PTI Technologies Limited (Sheffield, England) to domnick hunter group plc for \$18 million in cash. On June 8, 2004, the Company completed the sale of PTI S.p.A. (Milan, Italy) to a group of investors comprised of the subsidiary's senior management for \$5.3 million. An after-tax loss of \$0.4 million related to the MicroSep businesses is reflected in the Company's fiscal 2004 first quarter results in discontinued operations.

3. EARNINGS PER SHARE (EPS)

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

	Three Months Ended December 31, -----	
	2004	2003
	----	----
Weighted Average Shares Outstanding - Basic	12,793	12,838
Dilutive Options and Restricted Shares	411	446
	---	---
Adjusted Shares- Diluted	13,204	13,284
	=====	=====

Options to purchase 1,500 shares of common stock at a price of \$77.71 and options to purchase 77,250 shares of common stock at a price of \$48.58 were outstanding during the three month periods ended December 31, 2004 and 2003, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares. The options expire at various periods through 2013. Approximately 27,000 and 16,000 performance-accelerated restricted shares were excluded from the respective computation of diluted EPS based upon the application of the treasury stock method for the three month periods ended December 31, 2004 and 2003, respectively.

Had compensation cost for the Company's stock option plans and performance-accelerated restricted share plans been determined based on the fair value at the grant date for awards outstanding during the three month periods ended December 31, 2004 and 2003 consistent with the provisions of SFAS 148, the Company's net earnings and net earnings per share would have been as shown in the table below:

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended December 31, -----	
	2004 ----	2003 ----
Net earnings, as reported	\$10,523	6,151
Add: stock-based employee compensation expense included in reported net earnings, net of tax	369	274
Less: total stock-based employee compensation expense determined under fair value based methods, net of tax	(918)	(536)
	-----	-----
Pro forma net earnings	\$ 9,974 =====	5,889 =====
Net earnings per share:		
Basic - as reported	\$ 0.82	0.48
Basic - pro forma	0.78 =====	0.46 =====
Diluted - as reported	\$ 0.80	0.46
Diluted - pro forma	0.76 =====	0.44 =====

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 the three month periods ended December 31, 2004 and 2003, respectively: expected dividend yield of 0% in both periods; expected volatility of 28.3% and 23.9%; risk-free interest rate of 3.6% and 4.3%; and expected life based on historical exercise periods of 4.21 years and 4.24 years.

#### 4. INVENTORIES

Inventories consist of the following (in thousands):

	December 31, 2004 ----	September 30, 2004 ----
Finished goods	\$ 13,758	11,444
Work in process, including long- term contracts	13,704	13,759
Raw materials	20,742	19,084
	-----	-----
Total inventories	\$ 48,204 =====	44,287 =====

#### 5. COMPREHENSIVE INCOME

Comprehensive income for the three-month periods ended December 31, 2004 and 2003 was \$13.9 million and \$8.6 million, respectively. For the three month periods ended December 31, 2004 and 2003, the Company's comprehensive income was positively impacted by foreign currency translation adjustments of \$3.4 million and \$2.5 million, respectively.

#### 6. BUSINESS SEGMENT INFORMATION

The Company is organized based on the types of products and services that it offers. Under this organizational structure, the Company operates in three segments: Filtration/Fluid Flow, Communications and Test.

Management evaluates and measures the performance of its operating segments based on "Net Sales" and "EBIT", which are detailed in the table below. EBIT is defined as earnings from continuing operations before interest and taxes. "Corporate" consists of unallocated corporate office operating charges. The table below is presented for continuing operations and excludes discontinued operations.

(\$ in thousands)	Three Months ended December 31, -----	
	2004	2003
NET SALES	2004	2003
-----	----	----
Filtration/Fluid Flow	\$ 44,004	39,909
Communications	33,533	31,414
Test	26,838	25,073
-----	-----	-----
Consolidated totals	\$104,375	96,396
	=====	=====
EBIT		
Filtration/Fluid Flow	\$ 7,059	3,511 (1)
Communications	9,622	7,367
Test	2,082	2,197
Corporate	(2,257)	(2,332)
-----	-----	-----
Consolidated EBIT	16,506	10,743
Add: Interest income	(481)	(36)
-----	----	---
Earnings before income taxes	\$ 16,987	10,779
	=====	=====

(1) Includes \$0.7 million of exit costs related to the Filtertek Puerto Rico facility described in detail in previous filings.

#### 7. RETIREMENT AND OTHER BENEFIT PLANS

A summary of net periodic benefit expense for the Company's defined benefit plans and postretirement healthcare and other benefits for the three month periods ended December 31, 2004 and 2003 are shown in the following tables. Effective December 31, 2003, the Company's defined benefit plan was frozen and no additional benefits will be accrued after that date. Net periodic benefit cost for each period presented is comprised of the following:

(Dollars in thousands)	Three Months Ended December 31, -----	
	2004	2003
-----	----	----
Defined benefit plans		
Service cost	\$ -	140
Interest cost	663	623
Expected return on assets	(713)	(675)
Amortization of:		
Actuarial loss	125	100
-----	----	----
Net periodic benefit cost	\$ 75	188
	====	===

Net periodic postretirement benefit cost for each period presented is comprised of the following:

(Dollars in thousands)	Three Months Ended December 31, -----	
	2004	2003
-----	----	----
Service cost	\$ 8	5
Interest cost	10	8
Amortization of actuarial gain	(8)	(13)
-----	--	---
Net periodic postretirement benefit cost	\$ 10	-
	=====	===





## 8. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (R), "Share-Based Payment" (SFAS No. 123 (R)). This Statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB No. 25, "Accounting for Stock Issued to Employees." SFAS 123 (R) requires all stock-based compensation to be recognized as an expense in the financial statements and that such cost be measured according to the fair value of stock options. SFAS 123 (R) will be effective for quarterly periods beginning after June 15, 2005. The Company plans to adopt the provisions of this Statement in the fourth quarter of fiscal 2005 on a prospective basis. The Company currently provides the pro forma disclosures required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," on a quarterly basis (see "Note 3 - Earnings Per Share").

In December 2004, the FASB issued FASB Staff Position FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (FSP 109-2)." The American Jobs Creation Act of 2004, (the "Act") provides for a special one-time deduction of 85 percent of certain foreign earnings repatriated into the U.S. from non-U.S. subsidiaries through September 30, 2006. The Company is currently evaluating the merits of repatriating funds under the Act. The range of reasonably possible amounts of unremitted earnings that are being considered for repatriation is between zero and \$27.6 million, which would require the Company to pay income taxes in the range of zero to \$2.0 million. Federal income taxes on the repatriated amounts would be based on the 5.25% effective statutory rate as provided in the Act, plus applicable withholding taxes. To date, the Company has not provided for income taxes on unremitted earnings generated by non-U.S. subsidiaries given the Company's historical intent to permanently invest these earnings abroad. As a result, additional taxes will be required to be recorded for any funds repatriated under the Act. The Company expects to complete its evaluation of the repatriation provision of the Act by September 30, 2006.

## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

The following discussion refers to the Company's results from continuing operations, except where noted. The Microfiltration and Separations businesses (MicroSep), which were sold in the third quarter of fiscal 2004, are accounted for as discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the MicroSep businesses are reflected as discontinued operations in the financial statements and related notes for fiscal 2004.

### NET SALES

Net sales increased \$8.0 million (8.3%) to \$104.4 million for the first quarter of fiscal 2005 from \$96.4 million for the first quarter of fiscal 2004, primarily due to increases across all three operating segments including a favorable foreign currency impact which contributed \$1.5 million to the increase in sales. On a segment basis, for the first quarter of fiscal 2005, Filtration/Fluid Flow sales increased 10%, Communications sales increased 7%, and Test sales increased 7% from the prior year period.

#### - Filtration/Fluid Flow

Net sales increased \$4.1 million (10.3%) to \$44.0 million for the first quarter of fiscal 2005 from \$39.9 million for the first quarter of fiscal 2004. The sales increase during the fiscal quarter ended December 31, 2004 as compared to the prior year quarter is mainly due to the following: higher commercial and military aerospace shipments at PTI Technologies Inc. (PTI) of \$2.3 million, a net sales increase at Filtertek of \$1.1 million driven by favorable foreign currency rates related to its European operations, and higher defense shipments at VACCO of \$0.7 million.

#### - Communications

For the first quarter of fiscal 2005, net sales of \$33.5 million were \$2.1 million, or 6.7%, higher than the \$31.4 million of net sales recorded in the first quarter of fiscal 2004. The sales increase in the first quarter of fiscal 2005 as compared to the prior year period is the result of higher shipments of Comtrak's SecurVision video security products, which generated \$7.1 million in sales during the first quarter of fiscal 2005 compared to \$0.5 million in the prior year period. This increase in Comtrak's shipments was the result of additional deliveries which had been previously delayed by the customer who had required a modification of the products to provide enhanced "virus" protection. DCSI's sales of automatic meter reading (AMR) equipment to electric utility

customers were \$26.4 million in the first quarter of fiscal 2005 compared to \$31.0 million in the prior year period. Sales to PPL Electric Utilities Corporation (PPL) decreased approximately \$11.5 million in the first quarter of fiscal 2005 compared to the prior year period due to the wind-down of the PPL contract. Sales to PPL were \$1.0 million and \$12.5 million in the fiscal quarters ended December 31, 2004 and 2003, respectively. The decrease in sales to PPL was partially offset by higher AMR product sales to the electric utility cooperative (COOP) market and other customers. DCSI's sales to COOP's and other customers were \$25.4 million and \$18.5 million in the fiscal quarters ended December 31, 2004 and 2003, respectively.

- -Test

Net sales increased \$1.7 million (6.8%) to \$26.8 million for the first quarter of fiscal 2005 from \$25.1 million for the first quarter of fiscal 2004. The sales increase during the fiscal quarter ended December 31, 2004 as compared to the prior year quarter is primarily due to the completion of several test chamber installations, higher antenna and other component sales, and the completion of additional government shielding projects.

#### ORDERS AND BACKLOG

Backlog was \$246.4 million at December 31, 2004 compared with \$249.1 million at September 30, 2004. The Company received new orders totaling approximately \$102 million in the first quarter of fiscal 2005. New orders of \$39.2 million were received in the first quarter of fiscal 2005 related to Filtration/Fluid Flow products, \$35.3 million related to Communications products (includes \$30.7 million of new orders related to AMR products), and \$27.1 million related to Test products.

#### GROSS PROFIT

The Company computes gross profit as net sales less cost of sales. The gross profit margin is the gross profit divided by net sales, expressed as a percentage. The gross profit margin was 34.4% and 31.3% in the first quarter of fiscal 2005 and 2004, respectively. This increase of 3.1% was mainly due to higher margins on shipments of AMR equipment and SecurVision products in the Communications segment. In addition, the prior year first quarter gross profit margin in the Filtration/Fluid Flow segment was negatively impacted by the exit and move costs incurred and the inefficiencies being absorbed at Filtertek as a result of operating in both the Puerto Rico and Juarez, Mexico facilities. The closure and relocation of the Filtertek Puerto Rico facility was completed in March 2004.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses for the first quarter of fiscal 2005 were \$19.8 million (19.0% of net sales), compared with \$18.8 million (19.5% of net sales) for the prior year period. The increase in SG&A spending in the fiscal quarter ended December 31, 2004 as compared to the prior year period is mainly due to the costs associated with marketing, project management and new product development within the Communications segment to further penetrate the investor owned utility market.

#### OTHER (INCOME) EXPENSES, NET

Other (income) expenses, net, were \$(0.5) million for the quarter ended December 31, 2004 compared to \$0.6 million for the prior year quarter. Principal components of other (income) expenses, net, for the first quarter of fiscal 2005 included \$(0.6) million of royalty income and \$0.2 million of amortization expense of identifiable intangible assets (primarily patents, licenses and software). Principal components of other (income) expenses, net, for the first quarter of fiscal 2004 included the following: \$0.4 million of exit costs related to the Filtertek Puerto Rico facility and \$0.2 million of amortization of identifiable intangible assets (primarily patents and licenses).

#### EBIT

The Company evaluates the performance of its operating segments based on EBIT, defined below. EBIT was \$16.5 million (15.8% of net sales) for the first quarter of fiscal 2005 and \$10.7 million (11.1% of net sales) for the first quarter of fiscal 2004. EBIT for the first quarter of fiscal 2004 was negatively impacted by \$0.7 million of severance and exit costs related to the Filtertek Puerto Rico facility (Filtration/Fluid Flow segment).

This Form 10-Q contains the financial measure "EBIT", which is not calculated in accordance with generally accepted accounting principles in the United States of America (GAAP). EBIT provides investors and Management with an alternative method for assessing the Company's operating results. The Company defines "EBIT" as earnings from continuing operations before interest and taxes. Management evaluates the performance of its operating segments based on EBIT, and believes that EBIT is useful to investors to demonstrate the operational profitability of the Company's business segments by excluding interest and taxes, which are generally accounted for across the entire Company on a consolidated basis. EBIT is also one of the measures Management uses to determine resource allocations within the Company and incentive compensation. The following table represents a reconciliation of EBIT to net earnings from continuing operations.

	Three Months ended December 31,	
(\$ in thousands)	2004	2003

	----	----
EBIT	\$16,506	10,743
Interest income	481	36
Less: Income taxes	6,464	4,191
	-----	-----
Net earnings from continuing operations	\$10,523	6,588
	=====	=====

- -Filtration/Fluid Flow

EBIT was \$7.1 million (16.0% of net sales) and \$3.5 million (8.8% of net sales) in the first quarters of fiscal 2005 and 2004, respectively. This increase of \$3.6 million was due to the following: a \$1.8 million increase at Filtertek, which included \$0.6 million of cost reimbursement from a medical device customer related to a shortfall between their actual purchases versus the minimum contractually guaranteed amount (the first quarter of fiscal 2004 included \$0.7 million of exit costs related to the Puerto Rico facility); a \$1.1 million increase at PTI due to higher commercial and military aerospace shipments; and a \$0.7 million increase at VACCO due to higher defense shipments.

- -Communications

EBIT in the first quarter of fiscal 2005 was \$9.6 million (28.7% of net sales) as compared to \$7.4 million (23.5% of net sales) in the prior year period. The increase in EBIT margin in the first quarter of fiscal 2005 as compared to the prior year period is mainly due to the additional shipments of Comtrak's SecurVision products, as well as the favorable sales mix of AMR products resulting from additional sales to the COOP market, and cost reductions realized on certain AMR components. The Company will continue to increase its engineering and new product development expenditures in the Communications segment in order to continue its growth in the AMR markets, and to further differentiate its technology from the competition.

- -Test

EBIT in the first quarter of fiscal 2005 was \$2.1 million (7.8% of net sales) as compared to \$2.2 million (8.8% of net sales) in the prior year period. This decrease in EBIT is mainly the result of approximately \$0.3 million in installation cost overruns incurred on certain government shielding projects being installed in challenging areas throughout the world, as well as increased costs of steel and copper.

- -Corporate

Corporate costs included in EBIT were (\$2.3) million for the three month period ended December 31, 2004 compared to (\$2.4) million for the prior year period.

INTEREST INCOME, NET

Interest income, net was \$0.5 million for the three month period ended December 31, 2004 compared to interest income of \$0.1 million for the prior year period. This increase in interest income is mainly due to a tax refund of lookback interest and higher average cash balances on hand in fiscal 2005.

INCOME TAX EXPENSE

The first quarter fiscal 2005 effective income tax rate was 38.1% compared to 38.9% in the first quarter of fiscal 2004. The decrease in the effective income tax rate in the first quarter of fiscal 2005 is primarily due to the timing and volume of profit contributions of the Company's foreign operations. The Company estimates the annual effective tax rate for fiscal 2005 to be approximately 38%.

CAPITAL RESOURCES AND LIQUIDITY

Working capital decreased to \$154.6 million at December 31, 2004 from \$165.2 million at September 30, 2004. During the first three months of fiscal 2005, cash decreased \$11.9 million due to the \$24.9 million share repurchase, partially offset by cash generated from operations. Accounts receivable decreased by \$8.5 million due to timing of sales and collections. Inventories increased by \$3.9 million in the first three months of fiscal 2005, of which \$2.0 million related to the Test segment due to the timing of sales and \$1.1 million was to build safety stock within the Communications segment. In addition, accounts payable and accrued expenses decreased by \$10.4 million in the first three months of fiscal 2005, primarily due to the timing of vendor payments and payroll periods.

Net cash provided by operating activities from continuing operations increased to \$14.3 million in the first three months of fiscal 2005, compared to \$13.4 million in the same period of fiscal 2004.

Capital expenditures from continuing operations were \$2.0 million and \$2.5

million in the first quarter of fiscal 2005 and 2004, respectively. Major expenditures in the current period included manufacturing equipment and facility modifications used in the Filtration/Fluid Flow businesses.

The Company has approximately \$1.5 million in commitments outstanding in the Communications segment to further differentiate its products and to further penetrate the investor owned utility market. This amount is expected to be spent during fiscal 2005.

The closure and relocation of the Filtertek Puerto Rico facility was completed in March 2004. The Puerto Rico facility is included in other current assets with a carrying value of \$3.6 million at December 31, 2004. The facility continues to be actively marketed for sale.

In October 2004, the Company entered into a new \$100 million five-year revolving bank credit facility with a \$50 million increase option, which replaced its then-existing credit facility. At December 31, 2004, the Company had approximately \$98.6 million available to borrow under the credit facility in addition to \$60.4 million cash on hand. Against the \$100 million available under the revolving credit facility at December 31, 2004, the Company had outstanding letters of credit of \$1.4 million. Cash flow from operations and borrowings under the Company's bank credit facility are expected to meet the Company's capital requirements and operational needs for the foreseeable future.

#### STOCK REPURCHASE PROGRAM

In August 2004, the Company's Board of Directors approved the extension of the previously authorized (February 2001) open market repurchase program of up to 1.1 million shares, which is subject to market conditions and other factors and covers the period ending September 30, 2006. During the first quarter of fiscal 2005, the Company repurchased 335,036 shares under this program for a total of \$24.9 million and has approximately 575,000 shares remaining under this program at December 31, 2004.

#### CRITICAL ACCOUNTING POLICIES

Management has evaluated the accounting policies used in the preparation of the Company's financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving management judgments and estimates may be found in the Critical Accounting Policies Section of Management's Discussion and Analysis and in Note 1 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2004, at Exhibit 13.

#### OTHER MATTERS

##### Contingencies

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

#### FORWARD LOOKING STATEMENTS

Statements in this report that are not strictly historical are "forward looking" statements within the meaning of the safe harbor provisions of the federal securities laws. Forward looking statements include those relating to the estimates or projections made in connection with the Company's accounting policies, annual effective tax rate, timing of Communications segment commitments and expenditures, outcome of current claims and litigation, future cash flow, and capital requirements and operational needs for the foreseeable future. Investors are cautioned that such statements are only predictions, and speak only as of the date of this report. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to: weakening of economic conditions in served markets; changes in customer demands or customer insolvencies; competition; intellectual property rights; successful execution of the planned sale of the Company's Puerto Rico facility; delivery delays or defaults by customers; termination for convenience of customer contracts; timing and magnitude of future contract awards; performance issues with key suppliers, customers and subcontractors; collective bargaining and labor disputes; changes in laws and regulations including changes in accounting standards and taxation

requirements; changes in foreign or U.S. business conditions affecting the distribution of foreign earnings; costs relating to environmental matters; litigation uncertainty; and the Company's successful execution of internal operating plans.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. There has been no material change to the Company's risks since September 30, 2004. Refer to the Company's 2004 Annual Report on Form 10-K for further discussion about market risk.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of Management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of that date. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

c) Stock Repurchase Program

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Oct. 1-31, 2004	0	\$0.00	0	911,519
Nov. 1-30, 2004	138,936	\$72.03	138,936	772,583
Dec. 1-31, 2004	196,100	\$76.09	196,100	576,483
Total	335,036	\$74.40	335,036	

ITEM 5. OTHER INFORMATION

a) On October 4 and November 10, 2004, the Human Resources and Compensation Committee of the Company's Board of Directors took certain actions in respect of director and executive compensation. These actions are being reported as a result of recent SEC staff interpretations. See Exhibits 10.1 through 10.7 of this Form 10-Q.

ITEM 6. EXHIBITS

a) Exhibits  
Exhibit  
Number

3.1	Restated Articles of Incorporation	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1999, at Exhibit 3(a)
3.2	Amended Certificate of Designation, Preferences and Rights of Series A Participating Cumulative Preferred Stock of the Registrant	Incorporated by reference to Form 10-Q for the fiscal quarter ended March 31, 2000, at Exhibit 4(e)
3.3	Articles of Merger effective July 10, 2000	Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2000, at Exhibit 3(c)

- 3.4 Bylaws, as amended and restated. Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2003, at Exhibit 3.4
- 4.1 Specimen Common Stock Certificate Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2000, at Exhibit 4(a)
- 4.2 Specimen Rights Certificate Incorporated by reference to Current Report on Form 8-K dated February 3, 2000, at Exhibit B to Exhibit 4.1
- 4.3 Rights Agreement dated as of September 24, 1990 (as amended and Restated as of February 3, 2000) between the Registrant and Registrar and Transfer Company, as successor Rights Agent Incorporated by reference to Current Report on Form 8-K dated February 3, 2000, at Exhibit 4.1
- 4.4 Credit Agreement dated as of October 6, 2004, among the Registrant, Wells Fargo Bank, N.A., as agent, and the lenders listed therein Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2004, at Exhibit 4.4
- 10.1 Summary of Non-Employee Directors' Compensation
- 10.2 Performance Compensation Plan Amended and Restated as of November 25, 2002
- 10.3 2005 Performance Measures and Evaluation Criteria under Performance Compensation Plan
- 10.4 Awards to Executive Officers Not Reported on Form 8-K, October 4, 2004
- 10.5 Form of Notice of Award-Performance-Accelerated Restricted-Stock under 2001 Stock Incentive Plan
- 10.6 Form of Incentive Stock Option Agreement under 2004 Incentive Compensation Plan
- 10.7 Form of Nonqualified Stock Option Agreement under 2004 Incentive Compensation Plan
- 10.8 Form of Incentive Stock Option Agreement under 2001 Stock Incentive Plan
- 10.9 Form of Nonqualified Stock Option Agreement under 2001 Stock Incentive Plan
- 31.1 Certification of Chief Executive Officer relating to Form 10-Q for period ended December 31, 2004
- 31.2 Certification of Chief Financial Officer relating to Form 10-Q for period ended December 31, 2004
- 32 Certification of Chief Executive Officer and Chief Financial Officer relating to Form 10-Q for period ended December 31, 2004

SIGNATURE



Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ESCO TECHNOLOGIES INC.

/s/ Gary E. Muenster  
Gary E. Muenster  
Vice President and Chief Financial Officer  
(As duly authorized officer and principal accounting  
officer of the registrant)

Dated: February 8, 2005

## CERTIFICATIONS

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

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

Date: February 8, 2005

(s) V.L. Richey, Jr.  
-----  
V.L. Richey, Jr.  
Chief Executive Officer

CERTIFICATIONS

I, G.E. Muenster, certify that:

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

Date: February 8, 2005

(s) G.E. Muenster  
-----  
G.E. Muenster  
Chief Financial Officer

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

In connection with the quarterly report of ESCO Technologies Inc. (the "Company") on Form 10-Q for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, V. L. Richey, Jr., Chief Executive Officer of the Company, and G. E. Muenster, Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 8, 2005

/s/ V.L. Richey, Jr.  
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V.L. Richey, Jr.  
Chief Executive Officer  
ESCO Technologies Inc.

/s/ G.E. Muenster  
-----

G.E. Muenster  
Chief Financial Officer  
ESCO Technologies Inc.

ESCO Technologies Inc.  
Summary Of Non-Employee Directors'  
Compensation  
(Effective January, 2005)

1. Board of Directors:  
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- - - Annual Retainer -- \$20,000
- - - Lead Director Additional Annual Retainer -- \$15,000
- - - Total annual fees for meetings attended -- \$4,800 (four meetings)
- - - 1,600 shares of ESCO common stock per annum -- payable quarterly

2. Committees of the Board:  
-----

- - - Total annual fees for meetings attended of the Audit and Finance ("A&F") Committee, Governance ("NCG") Committee, the Human Resources and Compensation ("HRC") Committee-\$4,800 (four meetings)

3. Committee Chairmen -- Annual Retainers:

- - - A&F Committee -- \$7,000
- - - HRC Committee -- \$5,000
- - - NCG Committee -- \$5,000

All of the above cash retainers and fees shall be paid in advance in January of each year.

ESCO TECHNOLOGIES INC.  
PERFORMANCE COMPENSATION PLAN  
FOR CORPORATE, SUBSIDIARY AND  
DIVISION OFFICERS AND KEY MANAGERS  
-----

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

Fifth Sentence of Section V Amended on November 9, 2000  
Restated on November 28, 2000 to Reflect Name Change  
Restated on November 25, 2002 to reflect changes to Sections VII,  
IX and XI-E

I. PURPOSE  
-----

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

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

A. "Board of Directors" means the Board of Directors of ESCO Technologies Inc.

B. "Executive Compensation Executive" means the Executive Compensation Executive of ESCO Technologies Inc. C. "Chief Executive Officer" means the Chief Executive Officer of ESCO Technologies Inc.

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

E. "Company" means ESCO Technologies Inc., a Missouri Corporation.

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

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

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

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

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

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

III. ELIGIBILITY  
-----

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

IV. DETERMINATION OF MINIMUM AMOUNT PAYABLE  
-----

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

V. DETERMINATION OF PERFORMANCE COMPENSATION AWARDS  
-----

As soon as practicable after the end of each Fiscal Year, Performance Compensation Awards for each Participant for such Fiscal Year shall be determined. The Chief Executive Officer shall submit proposed Performance Compensation Awards for each Participant to the Committee based upon that Participant's performance during the Fiscal Year; provided, that the Committee may, following such submission, consider the further recommendations of the Chief Executive Officer. Final determination of the amount of each Participant's Performance Compensation Award (if any) as well as the total payment under the Plan for each Fiscal Year shall be the responsibility of the Committee. Recommended Performance Compensation Awards to Participants may be denied, or adjusted upward or downward by the Committee, as, in the Committee's sole judgment, is prudent based upon its assessment of the Participant's performance and Corporate, Subsidiary or Division performance during the Fiscal Year. Performance Compensation Awards for some Participants may be based upon predetermined Subsidiary, Division or individual performance targets whereas Performance Compensation Awards for other Participants may be totally discretionary as determined by the Committee. However, total Performance Compensation Awards under the Plan shall be no less than the minimum determined by the Board of Directors of the Company and each Subsidiary in accordance with Section IV.

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

VI. MANNER OF AND TIME FOR PAYMENTS.  
-----

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

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

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

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

Each Participant shall have the right to designate a beneficiary, and to change such beneficiary from time to time, by filing a request in writing with the Executive Compensation Executive. In the event the Participant shall not have so designated a beneficiary, or in the

event a beneficiary so designated shall predecease the Participant, the amounts otherwise payable to such beneficiary shall be paid to the person in, or divided equally among, the first of the following classes of successive preference beneficiaries in which there shall be any person surviving such Participant:

- (a) the Participant's spouse
- (b) the Participant's children
- (c) the Participant's executors or administrators.

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

VIII. ADMINISTRATION OF THE PLAN

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

IX. VESTING

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

X. AMENDMENT OR TERMINATION

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

XI. MISCELLANEOUS

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

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

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

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



E. The Plan shall be construed and administered in accordance with the laws of the State of Missouri, without regard to the principles of conflicts of law which might otherwise apply.

2005 Performance Measures and Evaluation Criteria  
Under  
Performance Compensation Plan

Under the Company's Performance Compensation Plan (the "Plan", an annual cash incentive compensation program), the Human Resources and Compensation Committee (the "Committee") of the Board of Directors of the Company, on October 4, 2004, approved the fiscal year 2005 targeted percentages of incentive-based compensation ("bonuses") for the executive officers of the Company. On November 11, 2004, the Committee approved the fiscal year 2005 performance measures and evaluation criteria for establishing the Plan bonuses to be paid to the executive officers at the end of the year. The Committee will evaluate and measure the performance of the executive officers based on the achievement of various Company and individual objectives, weighted as follows: earnings per share-50%, other operating results-10%; shareholder value-15%; economic profit improvement-5%; growth-5%; and individual objectives-15%. The Committee also approved a matrix to be applied to the above performance results in order to calculate the actual bonuses to be paid. The actual bonuses will vary from the bonus targets depending on the extent to which actual performance meets, exceeds or falls short of the established performance criteria approved by the Committee.

See the Plan document--Exhibit 10.2 of this Form 10-Q.

Awards to Executive Officers  
Not Reported on Form 8-K  
October 4, 2004

1. Performance-accelerated restricted stock awards granted October 4, 2004 under the 2001 Stock Incentive Plan:

Victor L. Richey, Jr. - 7,800 shares  
Charles J. Kretschmer - 5,000 shares  
Gary E. Muenster - 3,200 shares  
Alyson S. Barclay - 2,300 shares

See Exhibit 10.5 of this Form 10-Q.

2. Incentive stock option awards under the 2004 Incentive Compensation Plan:

Charles J. Kretschmer: number of shares granted - 450, date of grant October 4, 2004, option price \$70.36

Gary E. Muenster: number of shares granted - 1,247, date of grant, October 4, 2004, option price \$70.36

Alyson Barclay: number of shares granted - 1,528, date of grant, October 4, 2004, option price \$70.36

See Exhibit 10.6 of this Form 10-Q

3. Nonqualified stock option awards under the 2004 Incentive Compensation Plan:

Victor L. Richey, Jr.: number of shares granted - 7,800, date of grant October 4, 2004, option price \$70.36

Charles J. Kretschmer: number of shares granted - 4,550, date of grant October 4, 2004, option price \$70.36

Gary E. Muenster: number of shares granted - 1,950, date of grant October 4, 2004, option price \$70.36

Alyson Barclay: number of shares granted - 772, date of grant October 4, 2004, option price \$70.36

See Exhibit 10.7 of this Form 10-Q

## NOTICE OF AWARD

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To:

From: Human Resources and Compensation Committee of the Board of Directors  
("Committee")

Subject: ESCO Technologies Inc. 2001 Stock Incentive Plan ("Plan") - October,  
2004 Award

1. Award. The Committee has awarded to you ----- shares of Performance-Accelerated Restricted Stock under the terms of the Plan ("Award"). The Award is subject to all of the terms of the Plan, a copy of which has been delivered to you.

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

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

A ---	B ---
If the Average Value Per Share of Company Stock reaches: -----	The Cumulative Percent of Award Accelerated shall be: -----
\$75.00 or more	100%
\$65.00	50%
\$55.00	0%

(b) If you are still employed on September 30, 2009 you will earn 100% of the portion of the Award not yet accelerated provided you comply with the requirements of paragraph 3.

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

(i) No portion of this Award may be accelerated prior to October 1, 2006. One hundred percent (100%) of the total Award may be accelerated by the end of the Fiscal Year ending September 30, 2009.

(ii) Once a portion of the Award is accelerated under subparagraph (a), you must remain employed with the Company or a subsidiary of the Company until the March 31st following the end of the Fiscal Year in which that portion of the Award is accelerated. If you terminate employment (voluntarily or involuntarily) prior to such time, you will forfeit that portion of the Award. Provided, however, that if your employment is terminated on account of death, or total and permanent disability the foregoing employment requirement shall not apply.

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

(a) Notwithstanding the foregoing provisions of this subparagraph (iii), in the event a certified public accounting firm designated by the Committee (the "Accounting Firm") determines that any payment (whether paid or payable pursuant to the terms of this Award or otherwise and each such payment

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

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

3. Share Ownership Requirements. You must own directly or beneficially Company Stock in the amount of 50 % of the number of shares covered by the Award (hereinafter referred to as "Minimum Required Shares") and provide proof of ownership satisfactory to the Committee of that number of shares as of September 30, 2005. You must also notify the Company at any time during the Period of the Award on or after September 30, 2005 if you sell or otherwise transfer such shares and your total share ownership is less than the Minimum Required Shares. If, at any time during the Period of the Award on or after September 30, 2005, you own zero shares, 100% of the Award not yet accelerated will be forfeited. If, at any time during the Period of the Award on or after September 30, 2005, you own some shares but less than the Minimum Required Shares, you will forfeit a pro rata portion of the Award not yet accelerated based upon the ratio of the number of shares you own to the Minimum Required Shares.

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

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

(b) "Cause" shall mean:

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

(ii) The willful engaging in (A) illegal conduct (other than minor traffic offenses), or (B) conduct which is in breach of your fiduciary duty to the Company or one of its subsidiaries and which is demonstrably injurious to the Company or one of its subsidiaries, any of their reputations, or any of their business prospects. For purposes of this subparagraph (ii) and subparagraph (i) above, no act or

failure to act on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company or one of its subsidiaries. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company or one of its subsidiaries;

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

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

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

(e) "Good Reason" shall mean:

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

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

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

(f) "Period of the Award" means the period commencing October 1, 2006 and ending on September 30, 2009.

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

6. Medium of Payment. The Committee shall direct that any distribution shall be made in accordance with the terms of the Plan.

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

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

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

(c) induce or attempt to induce, or assist anyone else to induce or attempt to induce, any customer of the Company (or any subsidiary or joint venture of the Company), to discontinue its business with the Company (or with any subsidiary or joint venture of the Company), or disclose to anyone

else any confidential information relating to the identities, preferences, and/or requirements of any such customer; or

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

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

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

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

Executed this ----- day of-----, 20-----.

ESCO TECHNOLOGIES INC.

AGREED TO AND ACCEPTED:

By: -----  
Vice President

-----  
Participant

Attest: -----  
Secretary

INCENTIVE STOCK OPTION AGREEMENT  
UNDER  
ESCO TECHNOLOGIES INC.  
2004 INCENTIVE COMPENSATION PLAN

THIS AGREEMENT, made this day of , 20 , by and between ESCO TECHNOLOGIES INC., a Missouri corporation (hereinafter called the "Company"), and \_\_\_\_\_ (hereinafter called "Optionee"),

WITNESSETH THAT:

WHEREAS, the Board of Directors of the Company ("Board of Directors") has adopted the ESCO Technologies Inc. 2004 Incentive Compensation Plan (the "Plan") pursuant to which options may be granted to key officers, managers and professional employees of the Company and its subsidiaries; and

WHEREAS, Optionee is now a key officer, manager or professional employee of the Company or a subsidiary of the Company; and

WHEREAS, the Company desires to grant to Optionee the option to purchase certain shares of its stock under the terms of the Plan;

NOW, THEREFORE, in consideration of the premises, and of the mutual agreements hereinafter set forth, it is covenanted and agreed as follows:

1. Grant Subject to Plan. This option is granted under and is expressly subject to, all the terms and provisions of the Plan, which terms are incorporated herein by reference. The Committee referred to in Section 5 of the Plan ("Committee") has been appointed by the Board of Directors, and designated by it, as the Committee to make grants of options.

2. Grant and Terms of Option. Pursuant to action of the Committee, which action was taken on \_\_\_\_\_ ("Date of Grant"), the Company grants to Optionee the option to purchase all or any part of \_\_\_\_\_ shares of the Common Stock of the Company, of the par value of \$0.01 per share ("Common Stock"), for a period of five (5) years from the Date of Grant, at the purchase price of \$\_\_\_\_\_ per share; provided, however, that the right to exercise such option shall be, and is hereby, restricted so that no shares may be purchased during the first year of the term hereof. During the term of this option, Optionee may purchase shares to which this option relates in accordance with the Option Vesting Schedule (Schedule A) attached hereto. In no event may this option or any part thereof be exercised after the expiration of five (5) years from the Date of Grant. Without further action or approval by the Committee, the purchase price of the shares subject to the option may be paid for (i) in cash, (ii) by tender of shares of Common Stock already owned by Optionee, or (iii) by a combination of methods of payment specified in clauses (i) and (ii), but only if Optionee has owned any shares to be tendered for at least six (6) months, all in accordance with Section 7(b) of the Plan. No shares of Common Stock may be tendered in exercise of this option if such shares were acquired by Optionee through the exercise of an Incentive Stock Option, unless (i) such shares have been held by Optionee for at least one year, and (ii) at least two years have elapsed since such Incentive Stock Option was granted.

3. Anti-Dilution Provisions. In the event that, during the term of this Agreement, there is any change in the number of shares of outstanding Common Stock of the Company by reason of stock dividends, recapitalizations, mergers, consolidations, split-ups, combinations or exchanges of shares and the like, the number of shares covered by this option agreement and the price thereof shall be adjusted, to the same proportionate number of shares and price as in this original agreement.

4. Investment Purpose. Optionee represents that, in the event of the exercise by Optionee of the option hereby granted, or any part thereof, Optionee intends to purchase the shares acquired on such exercise for investment and not with a view to resale or other distribution; except that the Committee, at its election, may waive or release this condition in the event the shares acquired on exercise of the option are registered under the Securities Act of 1933, or upon the happening of any other contingency which the Committee shall determine warrants the waiver or release of this condition. Optionee agrees that the certificates evidencing the shares acquired by him on exercise of all or any part of this option, may bear a restrictive legend, if appropriate, indicating that the shares have not been registered under said Act and are subject to restrictions on the transfer thereof, which legend may be in the following form (or such other form as the Company shall determine to be proper), to-wit:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, but have been issued or transferred to the registered owner pursuant to the exemption afforded by Section



4(2) of said Act. No transfer or assignment of these shares by the registered owner shall be valid or effective, and the issuer of these shares shall not be required to give any effect to any transfer or attempted transfer of these shares, including without limitation, a transfer by operation of law, unless (a) the issuer shall have received an opinion of its counsel that the shares may be transferred without requirement of registration under said Act, or (b) there shall have been delivered to the issuer a 'no-action' letter from the staff of the Securities and Exchange Commission, or (c) the shares are registered under said Act."

5. Non-Transferability. Neither the option hereby granted nor any rights thereunder or under this Agreement may be assigned, transferred or in any manner encumbered except by will or the laws of descent and distribution, and any attempted assignment, transfer, mortgage, pledge or encumbrance except as herein authorized, shall be void and of no effect. The option may be exercised during Optionee's lifetime only by him.

6. Termination of Employment. In the event of the termination of employment of Optionee other than by death, the option granted may be exercised at the times and to the extent provided in Section 7(f) of the Plan.

7. Death of Optionee. In the event of the death of Optionee, the option granted may be exercised at the times and to the extent provided in Section 7(g) of the Plan.

8. Shares Issued on Exercise of Option. It is the intention of the Company that on any exercise of this option it will transfer to Optionee shares of its authorized but unissued stock or transfer Treasury shares, or utilize any combination of Treasury shares and authorized but unissued shares, to satisfy its obligations to deliver shares on any exercise hereof.

9. Committee Administration. This option has been granted pursuant to a determination made by the Committee, and such Committee or any successor or substitute committee authorized by the Board of Directors or the Board of Directors itself, subject to the express terms of this option, shall have plenary authority to interpret any provision of this option and to make any determinations necessary or advisable for the administration of this option and the exercise of the rights herein granted, and may waive or amend any provisions hereof in any manner not adversely affecting the rights granted to Optionee by the express terms hereof.

10. Option an Incentive Stock Option. This option is intended as, and shall be treated as, an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

11. Choice of Law. This Agreement shall be construed and administered in accordance with the laws of the State of Missouri without regard to the principles of conflicts of law which might otherwise apply. Any litigation concerning any aspect of this Agreement shall be conducted exclusively in the State or Federal courts in the State of Missouri. Both Company and Optionee expressly waive any right or claim either may have to litigate in any other state or nation and/or under the law(s) of any other state or nation relating to this Agreement.

12. Additional Provisions. This option shall be subject to any additional provisions set forth in the following Exhibits (if any) attached hereto: Non-Compete and Change of Control. If no Exhibits are attached, the foregoing constitutes the entire Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its Vice President pursuant to due authorization, and Optionee has signed this Agreement to evidence Optionee's acceptance of the option herein granted and of the terms hereof, all as of the date hereof.

ESCO TECHNOLOGIES INC.

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

\_\_\_\_\_  
Optionee

NONQUALIFIED STOCK OPTION AGREEMENT  
UNDER  
ESCO TECHNOLOGIES INC.  
2004 INCENTIVE COMPENSATION PLAN

THIS AGREEMENT, made this day of \_\_\_\_\_, 20\_\_\_\_ by and between ESCO TECHNOLOGIES INC., a Missouri corporation (hereinafter called the "Company"), and \_\_\_\_\_ (hereinafter called "Optionee"),

WITNESSETH THAT:

WHEREAS, the Board of Directors of the Company ("Board of Directors") has adopted the ESCO Technologies Inc. 2004 Incentive Compensation Plan (the "Plan") pursuant to which options may be granted to key officers, managers and professional employees of the Company and its subsidiaries; and

WHEREAS, Optionee is now a key officer, manager or professional employee of the Company or a subsidiary of the Company; and

WHEREAS, the Company desires to grant to Optionee the option to purchase certain shares of its stock under the terms of the Plan;

NOW, THEREFORE, in consideration of the premises, and of the mutual agreements hereinafter set forth, it is covenanted and agreed as follows:

1. Grant Subject to Plan. This option is granted under and is expressly subject to, all the terms and provisions of the Plan, which terms are incorporated herein by reference. The Committee referred to in Section 5 of the Plan ("Committee") has been appointed by the Board of Directors, and designated by it, as the Committee to make grants of options.

2. Grant and Terms of Option. Pursuant to action of the Committee, which action was taken on \_\_\_\_\_ ("Date of Grant"), the Company grants to Optionee the option to purchase all or any part of \_\_\_\_\_ shares of the Common Stock of the Company, of the par value of \$0.01 per share ("Common Stock"), for a period of five (5) years from the Date of Grant, at the purchase price of \$\_\_\_\_\_ per share; provided, however, that the right to exercise such option shall be, and is hereby, restricted so that no shares may be purchased during the first year of the term hereof. During the term of this option, Optionee may purchase shares to which this option relates in accordance with the Option Vesting Schedule (Schedule A) attached hereto. In no event may this option or any part thereof be exercised after the expiration of five (5) years from the Date of Grant. Without further action or approval by the Committee, the purchase price of the shares subject to the option may be paid for (i) in cash, (ii) by tender of shares of Common Stock already owned by Optionee, or (iii) by a combination of methods of payment specified in clauses (i) and (ii), but only if Optionee has owned any shares to be tendered for at least six (6) months, all in accordance with Section 7(b) of the Plan.

3. Anti-Dilution Provisions. In the event that, during the term of this Agreement, there is any change in the number of shares of outstanding Common Stock of the Company by reason of stock dividends, recapitalizations, mergers, consolidations, split-ups, combinations or exchanges of shares and the like, the number of shares covered by this option agreement and the price thereof shall be adjusted, to the same proportionate number of shares and price as in this original agreement.

4. Investment Purpose. Optionee represents that, in the event of the exercise by Optionee of the option hereby granted, or any part thereof, Optionee intends to purchase the shares acquired on such exercise for investment and not with a view to resale or other distribution; except that the Committee, at its election, may waive or release this condition in the event the shares acquired on exercise of the option are registered under the Securities Act of 1933, or upon the happening of any other contingency which the Committee shall determine warrants the waiver or release of this condition. Optionee agrees that the certificates evidencing the shares acquired by him on exercise of all or any part of this option, may bear a restrictive legend, if appropriate, indicating that the shares have not been registered under said Act and are subject to restrictions on the transfer thereof, which legend may be in the following form (or such other form as the Company shall determine to be proper), to-wit:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, but have been issued or transferred to the registered owner pursuant to the exemption afforded by Section 4(2) of said Act. No transfer or assignment of these shares by the registered owner shall be valid or effective, and the issuer of these shares shall not be required to give any effect to any transfer or attempted transfer of these shares, including without limitation, a

transfer by operation of law, unless (a) the issuer shall have received an opinion of its counsel that the shares may be transferred without requirement of registration under said Act, or (b) there shall have been delivered to the issuer a 'no-action' letter from the staff of the Securities and Exchange Commission, or (c) the shares are registered under said Act."

5. Non-Transferability. Neither the option hereby granted nor any rights thereunder or under this Agreement may be assigned, transferred or in any manner encumbered except by will or the laws of descent and distribution, and any attempted assignment, transfer, mortgage, pledge or encumbrance except as herein authorized, shall be void and of no effect. The option may be exercised during Optionee's lifetime only by him.

6. Termination of Employment. In the event of the termination of employment of Optionee other than by death, the option granted may be exercised at the times and to the extent provided in Section 7(f) of the Plan.

7. Death of Optionee. In the event of the death of Optionee, the option granted may be exercised at the times and to the extent provided in Section 7(g) of the Plan.

8. Shares Issued on Exercise of Option. It is the intention of the Company that on any exercise of this option it will transfer to Optionee shares of its authorized but unissued stock or transfer Treasury shares, or utilize any combination of Treasury shares and authorized but unissued shares, to satisfy its obligations to deliver shares on any exercise hereof.

9. Committee Administration. This option has been granted pursuant to a determination made by the Committee, and such Committee or any successor or substitute committee authorized by the Board of Directors or the Board of Directors itself, subject to the express terms of this option, shall have plenary authority to interpret any provision of this option and to make any determinations necessary or advisable for the administration of this option and the exercise of the rights herein granted, and may waive or amend any provisions hereof in any manner not adversely affecting the rights granted to Optionee by the express terms hereof.

10. Option Not an Incentive Stock Option. This option shall not be treated as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

11. Choice of Law. This Agreement shall be construed and administered in accordance with the laws of the State of Missouri without regard to the principles of conflicts of law which might otherwise apply. Any litigation concerning any aspect of this Agreement shall be conducted exclusively in the State or Federal courts in the State of Missouri. Both Company and Optionee expressly waive any right or claim either may have to litigate in any other state or nation and/or under the law(s) of any other state or nation relating to this Agreement.

12. Additional Provisions. This option shall be subject to any additional provisions set forth in the following Exhibits (if any) attached hereto: Non-Compete and Change of Control. If no Exhibits are attached, the foregoing constitutes the entire Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its Vice President pursuant to due authorization, and Optionee has signed this Agreement to evidence Optionee's acceptance of the option herein granted and of the terms hereof, all as of the date hereof.

ESCO TECHNOLOGIES INC.

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

\_\_\_\_\_  
Optionee

INCENTIVE STOCK OPTION AGREEMENT  
UNDER  
ESCO TECHNOLOGIES INC.  
2001 STOCK INCENTIVE PLAN

THIS AGREEMENT, made this \_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_, by and between ESCO TECHNOLOGIES INC., a Missouri corporation (hereinafter called the "Company"), and \_\_\_\_\_ (hereinafter called "Optionee"),

WITNESSETH THAT:

WHEREAS, the Board of Directors of the Company ("Board of Directors") has adopted the ESCO Technologies Inc. 2001 Stock Incentive Plan (the "Plan") pursuant to which options may be granted to key officers, managers and professional employees of the Company and its subsidiaries; and

WHEREAS, Optionee is now a key officer, manager or professional employee of the Company or a subsidiary of the Company; and

WHEREAS, the Company desires to grant to Optionee the option to purchase certain shares of its stock under the terms of the Plan;

NOW, THEREFORE, in consideration of the premises, and of the mutual agreements hereinafter set forth, it is covenanted and agreed as follows:

1. Grant Subject to Plan. This option is granted under and is expressly subject to, all the terms and provisions of the Plan, which terms are incorporated herein by reference. The Committee referred to in Section 5 of the Plan ("Committee") has been appointed by the Board of Directors, and designated by it, as the Committee to make grants of options.

2. Grant and Terms of Option. Pursuant to action of the Committee, which action was taken on \_\_\_\_\_ ("Date of Grant"), the Company grants to Optionee the option to purchase all or any part of \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of the Company, of the par value of \$0.01 per share ("Common Stock"), for a period of five (5) years from the Date of Grant, at the purchase price of \$\_\_\_\_\_ per share; provided, however, that the right to exercise such option shall be, and is hereby, restricted so that no shares may be purchased during the first year of the term hereof; that at any time during the term of this option after the end of the first year from the Date of Grant, Optionee may purchase up to 33-1/3% of the total number of shares to which this option relates; that at any time during the term of this option after the end of the second year from the Date of Grant, Optionee may purchase up to an additional 33-1/3% of the total number of shares to which this option relates; and that at any time after the end of the third year from the Date of Grant, Optionee may purchase up to an additional 33-1/3% of the total number of shares to which this option relates; so that upon the expiration of the third year from the Date of Grant and thereafter during the term hereof, Optionee will have become entitled to purchase the entire number of shares to which this option relates. In no event may this option or any part thereof be exercised after the expiration of five (5) years from the Date of Grant. Without further action or approval by the Committee, the purchase price of the shares subject to the option may be paid for (i) in cash, (ii) by tender of shares of Common Stock already owned by Optionee, or (iii) by a combination of methods of payment specified in clauses (i) and (ii), but only if Optionee has owned any shares to be tendered for at least six (6) months, all in accordance with Section 7(b) of the Plan. No shares of Common Stock may be tendered in exercise of this option if such shares were acquired by Optionee through the exercise of an Incentive Stock Option, unless (i) such shares have been held by Optionee for at least one year, and (ii) at least two years have elapsed since such Incentive Stock Option was granted.

3. Anti-Dilution Provisions. In the event that, during the term of this Agreement, there is any change in the number of shares of outstanding Common Stock of the Company by reason of stock dividends, recapitalizations, mergers, consolidations, split-ups, combinations or exchanges of shares and the like, the number of shares covered by this option agreement and the price thereof shall be adjusted, to the same proportionate number of shares and price as in this original agreement.

4. Investment Purpose. Optionee represents that, in the event of the exercise by Optionee of the option hereby granted, or any part thereof, Optionee intends to purchase the shares acquired on such exercise for investment and not with a view to resale or other distribution; except that the Committee, at its election, may waive or release this condition in the event the shares acquired on exercise of the option are registered under the Securities Act of 1933, or upon the happening of any other contingency which the Committee shall determine

warrants the waiver or release of this condition. Optionee agrees that the certificates evidencing the shares acquired by him on exercise of all or any part of this option, may bear a restrictive legend, if appropriate, indicating that the shares have not been registered under said Act and are subject to restrictions on the transfer thereof, which legend may be in the following form (or such other form as the Company shall determine to be proper), to-wit:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, but have been issued or transferred to the registered owner pursuant to the exemption afforded by Section 4(2) of said Act. No transfer or assignment of these shares by the registered owner shall be valid or effective, and the issuer of these shares shall not be required to give any effect to any transfer or attempted transfer of these shares, including without limitation, a transfer by operation of law, unless (a) the issuer shall have received an opinion of its counsel that the shares may be transferred without requirement of registration under said Act, or (b) there shall have been delivered to the issuer a 'no-action' letter from the staff of the Securities and Exchange Commission, or (c) the shares are registered under said Act."

5. Non-Transferability. Neither the option hereby granted nor any rights thereunder or under this Agreement may be assigned, transferred or in any manner encumbered except by will or the laws of descent and distribution, and any attempted assignment, transfer, mortgage, pledge or encumbrance except as herein authorized, shall be void and of no effect. The option may be exercised during Optionee's lifetime only by him.

6. Termination of Employment. In the event of the termination of employment of Optionee other than by death, the option granted may be exercised at the times and to the extent provided in Section 7(f) of the Plan.

7. Death of Optionee. In the event of the death of Optionee, the option granted may be exercised at the times and to the extent provided in Section 7(g) of the Plan.

8. Shares Issued on Exercise of Option. It is the intention of the Company that on any exercise of this option it will transfer to Optionee shares of its authorized but unissued stock or transfer Treasury shares, or utilize any combination of Treasury shares and authorized but unissued shares, to satisfy its obligations to deliver shares on any exercise hereof.

9. Committee Administration. This option has been granted pursuant to a determination made by the Committee, and such Committee or any successor or substitute committee authorized by the Board of Directors or the Board of Directors itself, subject to the express terms of this option, shall have plenary authority to interpret any provision of this option and to make any determinations necessary or advisable for the administration of this option and the exercise of the rights herein granted, and may waive or amend any provisions hereof in any manner not adversely affecting the rights granted to Optionee by the express terms hereof.

10. Option an Incentive Stock Option. This option is intended as, and shall be treated as, an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

11. Choice of Law. This Agreement shall be construed and administered in accordance with the laws of the State of Missouri without regard to the principles of conflicts of law which might otherwise apply. Any litigation concerning any aspect of this Agreement shall be conducted exclusively in the State or Federal courts in the State of Missouri. Both Company and Optionee expressly waive any right or claim either may have to litigate in any other state or nation and/or under the law(s) of any other state or nation relating to this Agreement.

12. Additional Provisions. This option shall be subject to any additional provisions set forth in the following Exhibits (if any) attached hereto: Change of Control and Non-Compete. If no Exhibits are attached, the foregoing constitutes the entire Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its Vice President pursuant to due authorization, and Optionee has signed this Agreement to evidence Optionee's acceptance of the option herein granted and of the terms hereof, all as of the date hereof.

ESCO TECHNOLOGIES INC.

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

EXHIBIT  
(Change of Control)

Notwithstanding Paragraph 2 of this Option Agreement, in the event of a Change of Control (as hereinafter defined) Optionee may purchase 100% of the total number of shares to which this option relates. For the purposes of this Exhibit, a Change of Control means:

a. The purchase or other acquisition (other than from the Company) by any person, 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 beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% 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

b. Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Board" and, as of 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

c. 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 election of directors of the reorganized, merged or consolidated corporation's 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.

EXHIBIT  
(Non-Compete)

Optionee agrees that for the period beginning on the Date of Grant and ending one (1) year after Optionee's termination of employment, Optionee will not, as an individual or as a partner, employee, agent, advisor, consultant or in any other capacity of or to any person, firm, corporation or other entity, directly or indirectly, other than as a 2% or less shareholder of a publicly traded corporation, do any of the following:

a. Carry on any business or become involved in any business activity, which is (i) competitive with the business of the Company (or a subsidiary or joint venture of the Company), as presently conducted and as said business may evolve in the ordinary course, and (ii) a business or business activity in which Optionee was engaged in the course of Optionee's employment with the Company (or a subsidiary or joint venture of the Company);

b. Recruit, solicit or hire, or assist anyone else in recruiting, soliciting or hiring, any employee of the Company (or any subsidiary or joint venture of the Company), for employment with any competitor of the Company (or of any subsidiary or joint venture of the Company);

c. Induce or attempt to induce, or assist anyone else to induce or attempt to induce, any customer of the Company (or any subsidiary or joint venture of the Company), with whom Optionee or anyone under Optionee's supervision has

dealt, or about whom Optionee has been provided any confidential information, to discontinue, divert, reduce or not renew its business with the Company (or with any subsidiary or joint venture of the Company), or disclose to anyone else any confidential information relating to the identities, preferences, and/or requirements of any such customer; or

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

#### Remedies.

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

b. The parties acknowledge and agree that the restrictions contained in this Exhibit are reasonable in light of, among other things, the following: (i) The parties' expectations regarding the Exhibit are based on the law of Missouri, where the Company is headquartered and has its principal place of business; (ii) The Company hereby agrees, as a result of Optionee's agreeing to this Exhibit, that the Company shall provide Optionee with confidential, competitively-sensitive and proprietary information; (iii) The Company competes both throughout the United States and in international markets; and (iv) The confidential and competitively-sensitive information which Optionee shall be provided, the customer and other business relationships that Optionee shall be allowed to develop, enhance and/or solidify, and the other benefits that Optionee is receiving as the result of agreeing to this Exhibit, justify the restrictions contained herein.

NONQUALIFIED STOCK OPTION AGREEMENT  
UNDER  
ESCO TECHNOLOGIES INC.  
2001 STOCK INCENTIVE PLAN

THIS AGREEMENT, made this \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_, by and between ESCO TECHNOLOGIES INC., a Missouri corporation (hereinafter called the "Company"), and \_\_\_\_\_ (hereinafter called "Optionee"),

WITNESSETH THAT:

WHEREAS, the Board of Directors of the Company ("Board of Directors") has adopted the ESCO Technologies Inc. 2001 Stock Incentive Plan (the "Plan") pursuant to which options may be granted to key officers, managers and professional employees of the Company and its subsidiaries; and

WHEREAS, Optionee is now a key officer, manager or professional employee of the Company or a subsidiary of the Company; and

WHEREAS, the Company desires to grant to Optionee the option to purchase certain shares of its stock under the terms of the Plan;

NOW, THEREFORE, in consideration of the premises, and of the mutual agreements hereinafter set forth, it is covenanted and agreed as follows:

1. Grant Subject to Plan. This option is granted under and is expressly subject to, all the terms and provisions of the Plan, which terms are incorporated herein by reference. The Committee referred to in Section 5 of the Plan ("Committee") has been appointed by the Board of Directors, and designated by it, as the Committee to make grants of options.

2. Grant and Terms of Option. Pursuant to action of the Committee, which action was taken on \_\_\_\_\_ ("Date of Grant"), the Company grants to Optionee the option to purchase all or any part of \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of the Company, of the par value of \$0.01 per share ("Common Stock"), for a period of five (5) years from the Date of Grant, at the purchase price of \$\_\_\_\_\_ per share; provided, however, that the right to exercise such option shall be, and is hereby, restricted so that no shares may be purchased during the first year of the term hereof; that at any time during the term of this option after the end of the first year from the Date of Grant, Optionee may purchase up to 33-1/3% of the total number of shares to which this option relates; that at any time during the term of this option after the end of the second year from the Date of Grant, Optionee may purchase up to an additional 33-1/3% of the total number of shares to which this option relates; and that at any time after the end of the third year from the Date of Grant, Optionee may purchase up to an additional 33-1/3% of the total number of shares to which this option relates; so that upon the expiration of the third year from the Date of Grant and thereafter during the term hereof, Optionee will have become entitled to purchase the entire number of shares to which this option relates. In no event may this option or any part thereof be exercised after the expiration of five (5) years from the Date of Grant. Without further action or approval by the Committee, the purchase price of the shares subject to the option may be paid for (i) in cash, (ii) by tender of shares of Common Stock already owned by Optionee, or (iii) by a combination of methods of payment specified in clauses (i) and (ii), but only if Optionee has owned any shares to be tendered for at least six (6) months, all in accordance with Section 7(b) of the Plan.

3. Anti-Dilution Provisions. In the event that, during the term of this Agreement, there is any change in the number of shares of outstanding Common Stock of the Company by reason of stock dividends, recapitalizations, mergers, consolidations, split-ups, combinations or exchanges of shares and the like, the number of shares covered by this option agreement and the price thereof shall be adjusted, to the same proportionate number of shares and price as in this original agreement.

4. Investment Purpose. Optionee represents that, in the event of the exercise by Optionee of the option hereby granted, or any part thereof, Optionee intends to purchase the shares acquired on such exercise for investment and not with a view to resale or other distribution; except that the Committee, at its election, may waive or release this condition in the event the shares acquired on exercise of the option are registered under the Securities Act of 1933, or upon the happening of any other contingency which the Committee shall determine warrants the waiver or release of this condition. Optionee agrees that the certificates evidencing the shares acquired by him on exercise of all or any part of this option, may bear a restrictive legend, if appropriate, indicating



that the shares have not been registered under said Act and are subject to restrictions on the transfer thereof, which legend may be in the following form (or such other form as the Company shall determine to be proper), to-wit:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, but have been issued or transferred to the registered owner pursuant to the exemption afforded by Section 4(2) of said Act. No transfer or assignment of these shares by the registered owner shall be valid or effective, and the issuer of these shares shall not be required to give any effect to any transfer or attempted transfer of these shares, including without limitation, a transfer by operation of law, unless (a) the issuer shall have received an opinion of its counsel that the shares may be transferred without requirement of registration under said Act, or (b) there shall have been delivered to the issuer a 'no-action' letter from the staff of the Securities and Exchange Commission, or (c) the shares are registered under said Act."

5. Non-Transferability. Neither the option hereby granted nor any rights thereunder or under this Agreement may be assigned, transferred or in any manner encumbered except by will or the laws of descent and distribution, and any attempted assignment, transfer, mortgage, pledge or encumbrance except as herein authorized, shall be void and of no effect. The option may be exercised during Optionee's lifetime only by him.

6. Termination of Employment. In the event of the termination of employment of Optionee other than by death, the option granted may be exercised at the times and to the extent provided in Section 7(f) of the Plan.

7. Death of Optionee. In the event of the death of Optionee, the option granted may be exercised at the times and to the extent provided in Section 7(g) of the Plan.

8. Shares Issued on Exercise of Option. It is the intention of the Company that on any exercise of this option it will transfer to Optionee shares of its authorized but unissued stock or transfer Treasury shares, or utilize any combination of Treasury shares and authorized but unissued shares, to satisfy its obligations to deliver shares on any exercise hereof.

9. Committee Administration. This option has been granted pursuant to a determination made by the Committee, and such Committee or any successor or substitute committee authorized by the Board of Directors or the Board of Directors itself, subject to the express terms of this option, shall have plenary authority to interpret any provision of this option and to make any determinations necessary or advisable for the administration of this option and the exercise of the rights herein granted, and may waive or amend any provisions hereof in any manner not adversely affecting the rights granted to Optionee by the express terms hereof.

10. Option Not an Incentive Stock Option. This option shall not be treated as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

11. Choice of Law. This Agreement shall be construed and administered in accordance with the laws of the State of Missouri without regard to the principles of conflicts of law which might otherwise apply. Any litigation concerning any aspect of this Agreement shall be conducted exclusively in the State or Federal courts in the State of Missouri. Both Company and Optionee expressly waive any right or claim either may have to litigate in any other state or nation and/or under the law(s) of any other state or nation relating to this Agreement.

12. Additional Provisions. This option shall be subject to any additional provisions set forth in the following Exhibits (if any) attached hereto: Change of Control and Non-Compete. If no Exhibits are attached, the foregoing constitutes the entire Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its Vice President pursuant to due authorization, and Optionee has signed this Agreement to evidence Optionee's acceptance of the option herein granted and of the terms hereof, all as of the date hereof.

ESCO TECHNOLOGIES INC.

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

\_\_\_\_\_

EXHIBIT  
(Change of Control)

Notwithstanding Paragraph 2 of this Option Agreement, in the event of a Change of Control (as hereinafter defined) Optionee may purchase 100% of the total number of shares to which this option relates. For the purposes of this Exhibit, a Change of Control means:

a. The purchase or other acquisition (other than from the Company) by any person, 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 beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% 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

b. Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Board" and, as of 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

c. 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 election of directors of the reorganized, merged or consolidated corporation's 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.

EXHIBIT  
(Non-Compete)

Optionee agrees that for the period beginning on the Date of Grant and ending one (1) year after Optionee's termination of employment, Optionee will not, as an individual or as a partner, employee, agent, advisor, consultant or in any other capacity of or to any person, firm, corporation or other entity, directly or indirectly, other than as a 2% or less shareholder of a publicly traded corporation, do any of the following:

a. Carry on any business or become involved in any business activity, which is (i) competitive with the business of the Company (or a subsidiary or joint venture of the Company), as presently conducted and as said business may evolve in the ordinary course, and (ii) a business or business activity in which Optionee was engaged in the course of Optionee's employment with the Company (or a subsidiary or joint venture of the Company);

b. Recruit, solicit or hire, or assist anyone else in recruiting, soliciting or hiring, any employee of the Company (or any subsidiary or joint venture of the Company), for employment with any competitor of the Company (or of any subsidiary or joint venture of the Company);

c. Induce or attempt to induce, or assist anyone else to induce or attempt to induce, any customer of the Company (or any subsidiary or joint venture of the Company), with whom Optionee or anyone under Optionee's supervision has dealt, or about whom Optionee has been provided any confidential information, to discontinue, divert, reduce or not renew its business with the Company (or with any subsidiary or joint venture of the Company), or disclose to anyone else any

confidential information relating to the identities, preferences, and/or requirements of any such customer; or

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

Remedies.

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

b. The parties acknowledge and agree that the restrictions contained in this Exhibit are reasonable in light of, among other things, the following: (i) The parties' expectations regarding the Exhibit are based on the law of Missouri, where the Company is headquartered and has its principal place of business; (ii) The Company hereby agrees, as a result of Optionee's agreeing to this Exhibit, that the Company shall provide Optionee with confidential, competitively-sensitive and proprietary information; (iii) The Company competes both throughout the United States and in international markets; and (iv) The confidential and competitively-sensitive information which Optionee shall be provided, the customer and other business relationships that Optionee shall be allowed to develop, enhance and/or solidify, and the other benefits that Optionee is receiving as the result of agreeing to this Exhibit, justify the restrictions contained herein.