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, 1997

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 ELECTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

Missouri	43-1554045
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8888 Ladue Road, Suite 200 St. Louis, Missouri (Address of principal executive offices)	63124-2090 (Zip Code)

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

Number of common stock trust receipts outstanding at January 31, 1998: 11,844,478 receipts.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)
(Dollars in thousands, except per share amounts)

Three Months Ended
December 31,

	1997	1996
Net sales	$ 78,077	68,899
Costs and expenses:		
Cost of sales	56,048	51,939
Selling, general and administrative expenses	15,532	12,951
Interest expense	1,691	277
Other, net	1,071	730
Total costs and expenses	74,342	65,897
Earnings before income taxes	3,735	3,002
Income tax expense	1,125	820
Net earnings	$ 2,610	2,182
Earnings per share: - Basic	$ .22	.18
- Diluted	.21	.18

See accompanying notes to condensed consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 1997	September 30, 1997
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 1,735	5,818
Accounts receivable, less allowance for doubtful accounts of $415 and $462, respectively	44,107	48,612
Costs and estimated earnings on long-term contracts, less progress billings of $60,774 and $56,451, respectively	52,373	54,633
Inventories	66,098	45,110
Other current assets	3,933	2,794
Total current assets	168,246	156,967
Property, plant and equipment, at cost	138,765	135,002
Less accumulated depreciation and amortization	42,557	38,470
Net property, plant and equipment	96,208	96,532
Excess of cost over net assets of purchased businesses, less accumulated amortization of $3,152 and $2,735, respectively	57,647	54,996
Deferred tax assets	47,451	48,510
Other assets	21,043	21,182
	$390,595	378,187
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 44,000	25,500
Accounts payable	33,061	38,238
Advance payments on long-term contracts, less costs incurred of $1,422 and $1,624, respectively	5,548	6,348
Accrued expenses and other current liabilities	24,481	24,590

Total current liabilities	107,090	94,676
Other liabilities	26,535	28,548
Long-term debt	49,000	50,000
Total liabilities	182,625	173,224
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, par value $.01 per share, authorized 10,000,000 shares	-	-
Common stock, par value $.01 per share, authorized 50,000,000 shares; issued 12,490,674 and 12,478,328 shares, respectively	125	125
Additional paid-in capital	195,115	194,663
Retained earnings since elimination of deficit of $60,798 at September 30, 1993	18,591	15,981
Cumulative foreign currency translation adjustment	(101)	196
Minimum pension liability	(181)	(181)
	213,549	210,784
Less treasury stock, at cost; 656,445 and 689,945 common shares, respectively	(5,579)	(5,821)
Total shareholders' equity	207,970	204,963
	$390,595	378,187

See accompanying notes to condensed consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Three Months Ended December 31, 1997	1996
Cash flows from operating activities:		
Net earnings	$ 2,610	2,182
Adjustments to reconcile net earnings to net cash used by operating activities:		
Depreciation and amortization	4,773	2,558
Changes in operating working capital	(21,448)	(6,374)
Other	219	365
Net cash used by operating activities	(13,846)	(1,269)
Cash flows from investing activities:		
Capital expenditures	(3,747)	(1,753)
Acquisition of business, less cash acquired	(3,460)	-
Net cash used by investing activities	(7,207)	(1,753)
Cash flows from financing activities:		
Net increase in short-term borrowings	18,500	-
Principal payments on long-term debt	(1,000)	(325)
Other	(530)	15
Net cash provided (used) by financing activities	16,970	(310)

Net decrease in cash and cash equivalents	(4,083)	(3,332)
Cash and cash equivalents, beginning of period	5,818	22,209
Cash and cash equivalents, end of period	$ 1,735	18,877

See accompanying notes to condensed consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying condensed 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 condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required by generally accepted accounting principles. For further information refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 1997. Certain prior year amounts have been reclassified to conform with the fiscal 1998 presentation.

The results for the three month period ended December 31, 1997 are not necessarily indicative of the results for the entire 1998 fiscal year.

2. Earnings Per Share

During the three months ended December 31, 1997, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options and performance shares by using the treasury stock method. The number of shares used in the calculation of earnings per share for each period presented is as follows (in thousands):

	Three Months Ended December 31, 1997	1996
Weighted Average Shares Outstanding - Basic	11,818	11,818
Dilutive Options and Performance Shares	764	227
Adjusted Shares - Diluted	12,582	12,045

Options to purchase 22,750 shares of common stock at $18.00 per share were outstanding during the quarter ended December 31, 1997, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in 2007. At December 31, 1996 all outstanding options were included in the computation of dilutive EPS. Approximately 167,000 and 498,000 performance shares were outstanding but unearned at December 31, 1997, and 1996, respectively, and therefore, were not included in the respective computations of diluted EPS. The unearned performance shares expire in 2001.

3. Inventories

Inventories consist of the following (dollars in thousands):

	December 31, 1997	September 30, 1997
Finished Goods	$ 8,923	8,542
Work in process, including long-term contracts	42,146	22,971
Raw materials	15,029	13,597
Total inventories	$ 66,098	45,110

Under the contractual arrangements by which progress payments are received, the U.S. Government has a security interest in the inventories associated with specific contracts. Inventories are net of progress payment receipts of $2.7 million and $3.2 million at December 31, 1997 and September 30, 1997, respectively.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations - Three months ended December 31, 1997 compared with three months ended December 31, 1996.

Net sales of $78.1 million for the first quarter of fiscal 1998 increased $9.2 million (13.3%) from net sales of $68.9 million for the first quarter of fiscal 1997. The sales increase in the current quarter reflects additional commercial sales resulting from the Filtertek acquisition ($18.0 million) and higher volume at PTI and Rantec, offset by lower defense sales at Systems & Electronics Inc. (SEI). Commercial sales were $46.7 million (59.8%) and defense sales were $31.4 million (40.2%) for the first quarter of fiscal 1998, compared with commercial and defense sales of $26.5 million (38.5%) and $42.4 million (61.5%), respectively, in the first quarter of fiscal 1997. The Filtertek acquisition effectively increases the commercial content of the Company's annualized sales in fiscal 1998 to over 50%.

Order backlog at December 31, 1997 was $238.9 million, compared with $228.2 million at September 30, 1997. During the fiscal 1998 first quarter, new orders aggregating $88.8 million were received, compared with $57.1 million in the first quarter of fiscal 1997. The increase in fiscal 1998 orders includes $18.9 million related to Filtertek. The most significant orders in the current period were for filtration/fluid flow products, airborne radar systems and fire support mission equipment.

The gross profit percentage was 28.2% in the first quarter of fiscal 1998 and 24.6% in the first quarter of fiscal 1997. The margin improvement in the first quarter of fiscal 1998 is due to an improved sales mix throughout the Company.

Selling, general and administrative (SG&A) expenses for the first quarter of fiscal 1998 were $15.5 million, or 19.9% of net sales, compared with $13 million, or 18.8% of net sales, for the same period a year ago. The increase in fiscal 1998 SG&A expenses is primarily due to the addition of Filtertek.

Interest expense increased to $1.7 million in fiscal 1998 from $.3 million in fiscal 1997 as a result of higher average outstanding borrowings. A significant amount of the outstanding borrowings in 1998 were incurred in February 1997 with the acquisition of Filtertek.

Other costs and expenses, net, were $1.1 million in the first quarter of fiscal 1998 compared to $.7 million in the same period of fiscal 1997. The increase in fiscal 1998 primarily reflects additional goodwill amortization expense associated with the acquisition of Filtertek in February 1997.

The effective income tax rate in the first quarter of fiscal 1998 was 30.1% compared to 27.3% in the first quarter of fiscal 1997. The fiscal 1998 effective tax rate was favorably impacted by the earnings contributed from the Company's Puerto Rican operations, and refunds received relating to state and local taxes. The effective tax rate during the first quarter of fiscal 1997 was favorably impacted by the settlement of a state tax liability. Management estimates the annual effective tax rate for fiscal year 1998 to be approximately 34%.

Financial Condition

Working capital decreased to $61.2 million at December 31, 1997 from $62.3 million at September 30, 1997. During the first three months of fiscal 1998: accounts receivable decreased by $4.5 million as a result of cash collections; costs and estimated earnings on long-term contracts and inventories increased in the aggregate by $18.7 million as a result of near-term production requirements (primarily TUNNER 60K Loader); and accounts payable and accrued expenses decreased by $5.3 million through payments necessary to satisfy commitments outstanding at September 30, 1997.

Net cash used by operating activities was $13.8 million in the first three months of fiscal 1998 and $1.3 million in the same period of fiscal 1997. The 1998 cash usage was primarily due to the TUNNER 60K Loader inventory requirements at SEI.

Capital expenditures were $3.7 million in the first three months of fiscal 1998 compared with $1.8 million in the comparable period of fiscal 1997. Major expenditures in the current period include manufacturing equipment at Filtertek and PTI.

On December 31, 1997, the Company completed the purchase of Euroshield OY for approximately $3.5 million. Euroshield, based in Eura, Finland, designs and manufactures high quality shielding products used in the electromagnetic compatibility (EMC) industry.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

a) Exhibits

Exhibit

Number	
4	Credit Agreement dated as of September 23, 1990 (as most recently amended and restated as of February 7, 1997 and amended as of November 21, 1997) among the Company, Defense Holding Corp., the Banks listed therein and Morgan Guaranty Trust Company of New York, as agent.

b) Reports on Form 8-K - There were no reports on Form 8-K filed during the quarter ended December 31, 1997.

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 ELECTRONICS CORPORATION

/s/ Philip M. Ford

Philip M. Ford
Senior Vice President
and Chief Financial
Officer (as duly authorized
officer and principal financial
officer of the registrant)

Dated: February 12, 1998

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<F1>THIS NUMBER DOES NOT INCLUDE $61 MILLION OF COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS.
</FN>

Amendment dated as of November 21, 1997, to the Credit Agreement dated as of September 23, 1990 (as amended and restated as of February 7, 1997) (the "Credit Agreement"), among ESCO Electronics Corporation, a Missouri corporation ("ESCO"), Defense Holding Corp., a Delaware corporation (the "Borrower"), the Banks party thereto (the "Banks") and Morgan Guaranty Trust Company of New York, as agent (the "Agent").

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

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

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

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

"Euroshield" means Euroshield OY.

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

"PTI Filters" means Sanmar - PTI Filters Limited.

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

> provided further, that the Borrower shall not be required to pledge or create a security interest in any of the assets of SFL, FBV FGMBH, FSA, Filtrotec, PPD (including the capital stock of PPD) or Euroshield, nor shall SFL, FBV, FGMBH, FSA, Filtrotec, PPD or Euroshield be required to become a party to the Guarantee Agreement or the Security Agreement, and the pledge by the Borrower of the capital stock of SFL, the pledge by Filtertek of the capital stock of FBV, FGMBH, FSA and Filtrotec, and the pledge by Euroshield Acquisition Corporation of the capital stock of Euroshield shall be limited to 65% of each class of such capital stock.

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

> Section 5.09. Subsidiaries; Partnerships. ESCO will not have any direct Subsidiaries other than the Borrower and any Restricted Subsidiaries. The Borrower will not have any direct or indirect Subsidiaries, other than the Specified Subsidiaries and any Subsidiaries resulting from any Investments made in accordance with clause (f), (l), or (n) of Section 5.16 and any restricted Subsidiaries, all of which shall be direct Subsidiaries (except that (i) PPD shall be a direct Subsidiary of SFL, (ii) Comtrak shall be a direct Subsidiary of SEI, (iii) EMC Test Systems shall be a limited partnership as described in the definition of "EMC Test Systems Reorganization", (iv) Rantec shall be a direct Subsidiary of Rantec Holding as described in the definition of "EMC Test Systems Reorganization", (v) Rantec Commercial shall be a direct Subsidiary of Rantec as described in the definition of "EMC Test

Systems Reorganization", (vi) FBV, FGMBH, Filtrotec, FDPR and FDB shall be direct subsidiaries of Filtertek, (vii) FSA shall be a subsidiary of Filtertek and FBV, and (vii) Euroshield shall be a subsidiary of Euroshield Acquisition Corporation). Neither ESCO nor the Borrower will, and they will not permit any of their Subsidiaries to, enter into any partnership or joint venture other than EMC Test Systems, PTI Filters and a Permitted Joint Venture. Notwithstanding anything to the Contrary contained in this Section (i) Uniexcel shall be a partially-owned Subsidiary of SFL, (ii) Filtertek de Puerto Rico S.A. may issue Class B Common Stock to certain of its senior executives, (iii) Filtertek may own less than all of, but not less than 85% of, the outstanding common stock of FDB and (iv) PTI may own not less than 40% and not more than 49% of the outstanding common stock of PTI Filters.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In witness whereof, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the date first above written:

ESCO ELECTRONICS CORPORATION

by
/S/ Donald H. Nonnenkamp

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

DEFENSE HOLDINGS CORP.

by
/S/ Philip M. Ford

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

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

by

/s/ Kevin J. O'Brien

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

NATIONSBANK, N.A.

by
/s/ Kenneth J. Schult

Name: Kenneth J. Schult
Title: Vice President

THE BANK OF NEW YORK

by
/s/ Christopher C. Jacobs

Name: Christopher C. Jacobs
Title: Assistant Treasurer

THE BANK OF NOVA SCOTIA

by
/s/ F.C.H. Ashby

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

THE SUMITOMO BANK, LIMITED

by

/s/ Teresa A. Lekich

Name: Teresa A. Lekich
Title: Vice President

by
/s/ Michael F. Murphy

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

FIRST UNION NATIONAL BANK OF NORTH CAROLINA

by
/s/ Glenn Edwards

Name: Glenn Edwards
Title: Vice President

SANWA BUSINESS CREDIT CORPORATION

by
/s/ Lawrence J. Placek

Name: Lawrence J. Placek
Title: Vice President