SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 1998

OR

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

Commission file number: 1-10596

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

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

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:

(314) 213-7200

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

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

(Cover page 1 of 2 pages)

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

None

Indicate by check mark whether the registrant (1) has filed all reports required

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form l0-K or any amendment to this Form l0-K. [X]

Aggregate market value of the Common Stock Trust Receipts held by non-affiliates of the registrant as of close of business on December 18, 1998: $104,266,488.*

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

Number of Common Stock Trust Receipts outstanding at December 18, 1998: 12,267,321 Receipts.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 1998 (the "1998 Annual Report") (Parts I and II).

2. Portions of the registrant's Proxy Statement dated December 4, 1998 (Part III).

ESCO ELECTRONICS CORPORATION
INDEX TO ANNUAL REPORT ON FORM 10-K

PART I

ITEM 1. BUSINESS

THE COMPANY

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

The above-listed operating subsidiaries are engaged in the research, development, manufacture, sale and support of a wide variety of commercial and defense systems and products. Commercial items are supplied to a variety of

customers worldwide. Defense items principally are supplied to the United States Government under prime contracts with the Army, Navy and Air Force and under subcontracts with their prime contractors, and are also sold to foreign customers. The Company's businesses are subject to a number of risks and uncertainties, including without limitation those discussed below. See Item 3. "Legal Proceedings" and "Management's Discussion and Analysis" appearing in the 1998 Annual Report.

On December 31, 1997, ESCO acquired Euroshield OY, a company located in Eura, Finland. On July 1, 1998, ESCO acquired Advanced Membrane Technology, Inc., based in San Diego, California, and renamed that company "PTI Advanced Filtration Inc."

PRODUCTS

The Company operates in two principal industry segments: commercial and defense. See Note 11 of the Notes to Consolidated Financial Statements in the 1998 Annual Report, which Note is herein incorporated by reference.

COMMERCIAL PRODUCTS

The Company's commercial products are described below.

FILTRATION/FLUID FLOW

PTI, PTI Advanced and PTI Limited develop and manufacture a wide range of filtration products. PTI is a leading supplier of filters to the commercial aerospace market. PTI's industrial business includes the supply of filtration solutions to the industrial and mobile fluid power markets and petrochemical processing industry. PTI also manufactures microfiltration products used in a variety of commercial markets and applications. The filtration membranes for many of these applications are, or will be, produced by PTI Advanced, which also supplies filtration systems for use in the dairy industry and in industrial paint operations. PTI Limited manufactures and distributes filter products primarily in the European industrial marketplace. In fiscal year 1998, PTI formed a joint venture in India, known as "SANMAR-PTI Filters Limited," with SANMAR Engineering Corporation to manufacture and sell filtration products for the Indian and other international markets. VACCO and PTI jointly develop and manufacture industrial filtration elements and systems primarily

used within the petrochemical and nuclear industries, where a premium is placed on superior performance in a harsh environment. VACCO supplies latch valves, check valves and filters to the aerospace industry, primarily for use in satellite propulsion systems. VACCO also uses its etched disk technology to produce quiet valves and manifolds for U.S. Navy applications.

Filtertek develops and manufactures a broad range of high-volume, original equipment manufacturer ("OEM") filtration products at its facilities in North America, South America and Europe. Filtertek's products, which are centered around its insert injection-molding technology wherein a filter medium is inserted into the tooling prior to injection-molding of the filter housing, have widespread applications in the medical and health care markets, automotive fluid systems, and other commercial and industrial markets. A typical application can require daily production of many thousands of units, at very high levels of quality, and is generally produced in highly-automated manufacturing cells. Many of Filtertek's products are patented or incorporate proprietary product or process design, or both. In fiscal year 1998, Filtertek introduced a number of new products, including an automotive transmission sump filter and products for medical intravenous ("I.V.") application. Products with applications in water filtration, blood filtration and fuel filtration are nearing completion of

development, with market introduction planned in fiscal year 1999.

COMMUNICATIONS/TEST

ETS designs and manufactures electromagnetic compatibility ("EMC") test equipment. It also supplies controlled radio frequency testing environments (anechoic chambers), shielded rooms for high security data processing and secure communication, and electromagnetic absorption materials. ETS's products include antennas, antenna masts, turntables, current probes, field probes, TEM (transverse electromagnetic) cells, GTEM (gigahertz transverse electromagnetic) cells, shielded rooms and boxes, microwave absorber, calibration equipment and other test accessories required to do EMC testing. ETS also provides all the design, program management and integration services required to supply customers with turnkey EMC solutions. Euroshield OY designs and manufactures a broad range of modular shielding systems and shielded doors, some of which are proprietary, for the world market. It also provides the design, program management and integration services to supply the European market with turnkey EMC solutions.

DCSI is a leading manufacturer of two-way power line communication systems for the utility industry. These systems provide the electric utilities with a patented communication technology for demand-side management, distribution automation, and automatic meter reading capabilities, thus improving the efficiency of power delivery to the consumer of electric energy. In fiscal year 1998, DCSI, through its Puerto Rican subsidiary, received orders in excess of $50 million from Puerto Rico Electric Power Authority for the first phase of an automatic meter reading system. Although there is no guaranty of additional orders, future island-wide implementation of this system is expected to result in a total project value in excess of $100 million extending over a 5-8 year time period.

Rantec designs and manufactures antennas and antenna feeds for wireless communications applications, including an electronically-scanned antenna used for control and navigation of air traffic. Rantec has developed and produced a commercial satellite cross-link antenna for use on the IRIDIUM1 system, a fully-operational global telephone system. Rantec also produces satellite antenna systems for use on commercial aircraft for in-flight entertainment, both audio and video. In addition, Rantec has developed and is currently supplying antennas for local multi-point distribution system ("LMDS") communications.

Rantec is currently developing power supplies for use in the telecommunications market.

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

OTHER INDUSTRIAL /GOVERNMENT PRODUCTS

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

Rantec designs and manufactures various power supplies, principally for high resolution computer and avionics displays and other industrial and medical equipment. In fiscal year 1998, Rantec began deliveries of a miniaturized, high voltage power supply for the emerging field emissive display market.

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

The Comtrak Division of SEI has applied its expertise in image processing and target recognition to develop a proprietary video security monitoring system which should have applications in commercial and industrial security systems. Currently, Comtrak is working jointly with ADT Security Services, Inc. to field

test this sytem, and initial sales are expected in fiscal year 1999. Comtrak also has extensive experience in the design and manufacture of location systems. Comtrak used this technological expertise to develop a vehicle location, tracking and communications system which will have applications in theft deterrence, fleet management and messaging communications.

DEFENSE PRODUCTS

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

DEFENSE ELECTRONICS

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

* SEI designs and manufactures launching and guidance systems (fire support systems) utilizing electro-optic technology for anti-armor missiles. These systems are manufactured in differing configurations for installation on a variety of helicopters, armored vehicles and light wheeled vehicles. SEI has also developed the Mission Equipment Package ("MEP") for the Bradley Fire Support Team Vehicle ("BFIST"), which is used to direct artillery fire, locate enemy targets and provide vehicle self-location. In fiscal year 1997, SEI was awarded a contract for the Army's new "STRIKER" system, a program that integrates the BFIST MEP and an advanced surveillance sensor package on the High-mobility Multi-purpose Wheeled Vehicle ("HUMVEE"). In May 1998, SEI delivered the first STRIKER system to the U.S. Army. STRIKER is expected to have a number of applications in the ground forces of the U.S. and its allies.

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

* SEI also supplies a lightweight Man-portable Surveillance and Target Acquisition Radar ("MSTAR") that detects and classifies moving personnel, vehicles, low-flying aircraft and artillery round impact. MSTAR has multiple applications as a stand-alone radar and as the radar component of an integrated sensor suite.

* Automatic test equipment ("ATE") for ground support of radar and other avionics equipment is also produced by SEI. SEI is currently developing a High Power Device Test ("HPDT") system which will be a part of the U.S. Navy's family of avionics test equipment. In addition, Mobile Electronic Test Sets ("METS") that are utilized for testing equipment on high performance fighter aircraft and specialized military transport aircraft are being upgraded or are in the spares support phase. SEI also provides interface adapters and test program software to meet the needs of each particular unit under test.

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

DEFENSE SYSTEMS

SEI supplies light, medium and heavy transportation systems and weapon

subsystems to the armed forces. Currently in production is a multiple-wheeled trailer with individually-steerable axles for transporting battle tanks and other large loads (the "M1000"). SEI also supplies high-capacity aircraft cargo loaders which aid in rapid tactical and strategic deployment. The first production deliveries of the 60,000 pound capacity Tunner aircraft cargo loader developed for the U.S. Air Force were made in late fiscal year 1997. In fiscal year 1998, this loader completed the U.S. Air Force Initial Operational Test and Evaluation, and 38 loaders have been delivered to date. The total Air Force requirement for the loader is expected to exceed 300 units, making this loader an important program at SEI for the foreseeable future. However, although this is a high-priority Air Force program, there can be no assurance that orders will be placed to meet this requirement. SEI also produces light and heavy tactical bridging systems.

MARKETING AND SALES

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

The Company's defense products predominantly are sold directly or indirectly to the U.S. Government under contracts with the Army, Navy and Air Force and subcontracts with prime contractors of such entities. Direct and indirect sales to the U.S. Government accounted for approximately 41%, 44%, and 53% of the Company's total sales in the fiscal years ended September 30, 1998, 1997 and 1996, respectively. The percentage figure for fiscal year 1996 includes 16% attributable to U.S. Government sales of Hazeltine Corporation, a former subsidiary of ESCO which was sold to GEC-Marconi Electronic Systems Corporation ("GEC-Marconi") in July 1996. See Notes 2 and 11 of the Notes to Consolidated Financial Statements in the 1998 Annual Report, which Notes are herein incorporated by reference.

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

International sales accounted for approximately 16%, 18% and 33% of the Company's total sales in the fiscal years ended September 30, 1998, 1997 and 1996, respectively. The decrease in fiscal year 1998 was primarily due to lower Far East sales at SEI, partially offset by increased European sales at Filtertek. The decrease in fiscal year 1997 was primarily due to the divestiture of Hazeltine and lower

Middle East sales at SEI. Hazeltine's international sales in the fiscal year ended September 30, 1996 amounted to 13% of the Company's total sales. See Notes 2 and 11 of the Notes to Consolidated Financial Statements in the 1998 Annual Report. The majority of these international sales involve defense products. Since most of the Company's foreign export sales involve technologically advanced products, services and expertise, U.S. export control regulations limit the types of products and services that may be offered and the countries and governments to which sales may be made. The Department of State issues and maintains the International Traffic in Arms Regulations pursuant to the Arms Export Control Act. Pursuant to these regulations, certain products and services cannot be exported without obtaining a license from the Department of State. Most of the defense products that the Company sells abroad cannot be sold without such a license. Consequently, the Company's international sales may be adversely affected by changes in the U.S. Government's export policy or by any suspension or revocation of the Company's foreign export control licenses.

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

GOVERNMENT DEFENSE CONTRACTS

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

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

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

The Company's backlog includes firm fixed-price U.S. Government contracts, development

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

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

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

As a U.S. Government contractor, the Company's recognition of revenue is based upon certain accounting policies described in Notes 1(d) and 1(f) of the Notes to Consolidated Financial Statements in the 1998 Annual Report, which Notes are herein incorporated by reference. The Company's revenues are impacted by the timing of the receipt of orders during the year, which may cause fluctuations in quarterly sales comparisons on a year-to-year basis. The Company periodically reviews contracts in the ordinary course to ascertain if customer actions or inactions have caused or will cause increased costs. In the past, the Company has submitted requests for equitable adjustments ("REAs") and claims seeking additional compensation, which involved substantial amounts of money. Currently, the Company has no such REAs or claims outstanding. However, in the future, to the extent any such REAs and claims are finally resolved for less than the amounts anticipated, the Company's financial position and operating results could be adversely affected.

INTELLECTUAL PROPERTY

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

BACKLOG

The backlog of firm orders was approximately $292.7 million at September 30, 1998 and approximately $225.0 million at September 30, 1997. As of September 30, 1998, it is estimated that: (i) commercial business accounted for approximately 57% of the firm orders and defense business accounted for approximately 43%, and (ii) domestic customers accounted for approximately 85% of the firm orders and foreign customers accounted for approximately 15%. Of the total backlog of orders at September 30, 1998, approximately 80% (including all commercial orders) is expected to be completed in the fiscal year ending September 30, 1999.

PURCHASED COMPONENTS AND RAW MATERIALS

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

COMPETITION

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

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

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

the Company's competitive position in these markets as well as domestic markets. Political factors also enter into foreign sales, including a foreign government's evaluation of the Company's willingness to subcontract work content to companies located in the foreign country involved.

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

RESEARCH AND DEVELOPMENT

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

In addition to its work under development contracts, the Company performs research and development at its own expense. For the fiscal years ended September 30,1998, 1997 and 1996, total Company-sponsored research and development expenses were approximately $5.9 million, $6.2 million and $11.9 million, respectively. Company-sponsored research and development expenses

attributable to Hazeltine were approximately $6.1 million for the fiscal year ended September 30, 1996. Total customer-sponsored research and development expenses were approximately $10.2 million, $6.3 million and $3.9 million for the fiscal years ended September 30, 1998, 1997 and 1996, respectively. Such customer-sponsored expenses attributable to Hazeltine were approximately $3.9 million for the fiscal year ended September 30, 1996. The increase in fiscal year 1998 for customer-sponsored research and development expenses was due to the increased activity at Rantec and Filtertek. The increase in fiscal year 1997 for such research and development expenses was due to the acquisition of Filtertek and increased activity at Rantec.

ENVIRONMENTAL MATTERS

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

effect on the Company's financial statements. See Item 3. "Legal Proceedings".

EMPLOYEES

As of October 31, 1998, the Company employed approximately 3,550 persons. Approximately 420 of the Company's employees are covered by a collective bargaining agreement, which expires in fiscal year 2000.

FINANCING

The Company has a credit agreement, which has been amended and restated as of February 7, 1997, and further amended as of May 6, 1997, November 21, 1997 and June 29, 1998, for a $59 million term loan, amortizing at $2 million per quarter through maturity, and a $73 million revolving credit facility (together the "Credit Facilities") with a group of seven banks agented by Morgan Guaranty Trust Company of New York. The Credit Facilities will mature and expire on September 30, 2000, and contain customary events of default, including change in control of the Company. In addition, under the Credit Facilities an event of default would occur if, for any reason other than payment or performance in accordance with the terms of one of the Company's contracts guaranteed by Emerson as referenced in the following section, Emerson shall cease to be liable under its guarantees with respect to any such contract. See "History Of The Business" below, "Management's Discussion and Analysis--Capital Resources and Liquidity" in the 1998 Annual Report, and Notes 7 and 12 of the Notes to Consolidated Financial Statements in the 1998 Annual Report, which Notes are herein incorporated by reference.

HISTORY OF THE BUSINESS

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

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

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

On July 22, 1996, ESCO sold 100% of the capital stock of Hazeltine to GEC-Marconi. On February 7, 1997, ESCO acquired the filtration products and the thermoform packaging businesses ("Filtertek") of

Schawk, Inc. On December 31, 1997, ESCO acquired the stock of Euroshield OY (located in Finland), and on July 1, 1998, ESCO acquired the stock of Advanced Membrane Technology, Inc. and renamed it "PTI Advanced Filtration Inc." See Note 2 of the Notes to Consolidated Financial Statements in the 1998 Annual Report.

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

In connection with the Distribution, Emerson, ESCO and ESCO's subsidiaries entered into various agreements which deal with, among other things, Emerson's guarantee of certain contracts of ESCO's subsidiaries existing at September 30, 1990 pursuant to which ESCO paid Emerson a guarantee fee of $7.4 million per year during the subsequent five (5) year period, which ended September 30, 1995 (as of September 30, 1998, the aggregate backlog of firm orders received by the Company was approximately $292.7 million which included guaranteed contracts totaling approximately $1.6 million, and there were open letters of credit with an aggregate value of approximately $2.4 million related to foreign advance payments in support of various contracts guaranteed by Emerson). See Note 12 of the Notes to Consolidated Financial Statements in the 1998 Annual Report. Copies of certain of these agreements, as well as the Deposit and Trust Agreement, are incorporated by reference as exhibits to this Form 10-K.

Pursuant to the Deposit and Trust Agreement, if ESCO should fail in certain circumstances to collateralize its obligation to indemnify Emerson with respect to contracts that are directly or indirectly guaranteed by Emerson, Emerson would have the right to direct the voting of the ESCO Common Stock represented by the Receipts with respect to the election of directors (including changing the size of the Board or removing directors and filling any vacancies). Emerson has the right to require ESCO to provide collateral upon: (A) the occurrence of

certain events relating to such guaranteed contracts, including defaults; (B) ESCO's failure to provide certain information, notices or consultation to Emerson or to maintain certain financial ratios and covenants; (C) the acquisition of beneficial ownership of 20% or more of the voting power of ESCO's outstanding capital stock by any person or group; or (D) the divestiture by ESCO of any business or assets which would constitute a significant subsidiary under Regulation S-X of the Commission without the consent of Emerson. If Emerson requires such collateral, it is uncertain whether ESCO would be able to provide it in light of, among other things, the amount of collateral which would be required to secure its obligations under the guaranteed contracts, which obligations may continue even after completion of the contracts, and restrictions in its financing arrangements unless a waiver is obtained from its lenders. See "Financing" above and Note 8 of the Notes to Consolidated Financial Statements in the 1998 Annual Report, which Note is herein incorporated by reference.

Effective September 30, 1993, ESCO's Board of Directors authorized an accounting readjustment of the Company's balance sheet in accordance with the accounting provisions applicable to a "quasi-reorganization," an elective accounting procedure intended to restate assets and liabilities to fair values and to eliminate any accumulated deficit in retained earnings. See Note 1(b) of the Notes to Consolidated Financial Statements in the 1998 Annual Report, which Note is herein incorporated by reference.

FORWARD-LOOKING INFORMATION

The statements contained in this Item 1. "Business" and in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" concerning the Company's future revenues, profitability, financial resources, utilization of net deferred tax assets, costs of Year 2000 compliance,

product mix, production and deliveries, market demand, product development, competitive position and statements containing phrases such as "believes", "anticipates", "may", "could", "should", and "is expected to" are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to: changing priorities or reductions in the U.S. and worldwide defense budgets; termination of government contracts due to unilateral government action; the Company's failure to perform commercial or government contracts; delivery delays or defaults by customers; performance issues with key suppliers and subcontractors; the Company's successful execution of internal operating plans; and collective bargaining labor disputes.

ITEM 2. PROPERTIES

The Company's principal buildings contain approximately 1,951,600 square feet of floor space. Approximately 1,585,800 square feet are owned by the Company and approximately 365,800 square feet are leased. Substantially all of the Company's owned properties are encumbered in connection with the Company's Credit Facilities. See Item 1. "Business--Financing" and Note 7 of the Notes to Consolidated Financial Statements in the 1998 Annual Report. The principal plants and offices are as follows:

LOCATION	SIZE (SQ. FT.)	SQ. FT. OWNED/LEASED	PRINCIPAL USE (INDUSTRY SEGMENT)

West Plains, MO	395,300	Owned	Manufacturing (Defense and Commercial)
St. Louis, MO	260,500	Owned	Management and Engineering (Defense and Commercial)
Sanford, FL	172,200	Owned	Manufacturing (Defense and Commercial)
Newbury Park, CA	144,600	Leased	Management, Engineering and Manufacturing (Defense and Commercial)
Huntley, IL	127,000	Owned	Manufacturing (Commercial)
Patillas, PR	110,000	Owned	Manufacturing (Commercial)
Durant, OK	100,000	Owned	Manufacturing (Commercial)
Hebron, IL	99,800	Owned	Management, Engineering and Manufacturing (Commercial)
South El Monte, CA	80,800	Owned	Management, Engineering and Manufacturing (Defense and Commercial)
Calabasas, CA	61,700	Owned	Management, Engineering and Manufacturing (Defense and Commercial)

Stockton, CA	55,000	Leased	Manufacturing (Commercial)
Austin, TX	50,000	Leased	Management, Engineering and Manufacturing (Commercial)
Los Osos, CA	40,000	Owned	Engineering and Manufacturing (Defense and Commercial)
San Diego, CA	38,000	Leased	Management, Engineering and Manufacturing (Commercial)
Newcastle West, Ireland	37,000	Owned	Manufacturing (Commercial)
St. Louis, MO	35,000	Owned	Management, Engineering and Manufacturing (Commercial)
Juarez, Mexico	34,400	Leased	Manufacturing (Defense and Commercial)
Sheffield, England	33,500	Owned	Management, Manufacturing and Distributor (Commercial)
Plailly, France	33,000	Owned	Manufacturing (Commercial)
Sao Paulo, Brazil	22,000	Leased	Manufacturing (Commercial)
St. Louis, MO	21,800	Leased	ESCO Headquarters (Defense and Commercial)

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

ITEM 3. LEGAL PROCEEDINGS

In August 1994, a class action lawsuit was filed by Ronald and Angela Aprea and other persons against Hazeltine in the Supreme Court of the State of New York, Suffolk County, alleging personal injury and property damage caused by Hazeltine's purported releases of hazardous materials at Hazeltine's facility at Greenlawn, New York. In connection with the sale of Hazeltine, the Company indemnified Hazeltine and GEC-Marconi against expenses and potential liability related to this suit. The suit seeks compensatory and punitive damages, and an order enjoining Hazeltine from discharging further hazardous materials and for Hazeltine to remediate all damage to the property of the plaintiffs. The Company believes that no one and no property has been injured by any release of hazardous materials from Hazeltine's facility. In fiscal year 1995, the Court dismissed two counts of the complaint as a result of Hazeltine's motion to dismiss, and the plaintiffs filed an amended complaint. The plaintiffs filed a motion to be certified as a class, and, early in fiscal year 1997, the Court denied this motion. The plaintiffs appealed, and the state appellate court affirmed the denial in fiscal year 1998. Based upon current facts, the Company is not able to estimate the probable outcome. Therefore,

no provision for this litigation has been made in the consolidated financial statements in the 1998 Annual Report. Management believes the Company will be successful in defending this action and that the outcome will not have a material adverse effect on the Company's financial statements. See Note 13 of the Notes to Consolidated Financial Statements in the 1998 Annual Report, which Note is herein incorporated by reference. See also Item 1. "Business--Government Defense Contracts" and "Business--Environmental Matters".

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

None.

EXECUTIVE OFFICERS OF THE REGISTRANT.

The following sets forth certain information as of December 13 , 1998 with respect to ESCO's executive officers. These officers have been elected to terms which expire at the first meeting of the Board of Directors after the next annual meeting of stockholders.

Name	Age	Position(s)
Dennis J. Moore *	60	Chairman, President and Chief Executive Officer
Philip M. Ford	58	Senior Vice President and Chief Financial Officer
Walter Stark	55	Senior Vice President, Secretary and General Counsel

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

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

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

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

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

PART II

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

The information required by this item is incorporated herein by reference to Notes 7 and 8 of the Notes to Consolidated Financial Statements, "Common Stock Market Prices" and "Shareholders' Summary--Capital Stock Information" appearing in the 1998 Annual Report. A special cash distribution of $3.00 per share was paid to Stockholders in September 1996. No other cash dividends have been declared on the Common Stock underlying the Receipts, and ESCO does not anticipate, currently or in the foreseeable future, paying cash dividends on the Common Stock, although it reserves the right to do so to the extent permitted by applicable law and agreements. ESCO's dividend policy will be reviewed by the Board of Directors at such future time

as may be appropriate in light of relevant factors at that time, based on ESCO's earnings and financial position and such other business considerations as the Board deems relevant at that time.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item, with respect to selected financial data, is incorporated herein by reference to "Five-Year Financial Summary" and Note 2 of the Notes to Consolidated Financial Statements appearing in the 1998 Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is incorporated herein by reference to "Management's Discussion and Analysis" appearing in the 1998 Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to "Management's Discussion and Analysis - Capital Resources and Liquidity" appearing in the 1998 Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated herein by reference to the Consolidated Financial Statements of the Company on pages 19 through 36 and the report thereon of KPMG Peat Marwick LLP, independent certified public accountants, appearing on page 37 of the 1998 Annual Report.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding nominees and directors appearing under "Nominees and Continuing Directors" in ESCO's Notice of the Annual Meeting of the Stockholders and Proxy Statement dated December 4, 1998 (the "1999 Proxy Statement") is hereby incorporated by reference. Information regarding executive officers is set forth in Part I of this Form 10-K.

Information appearing under "Section 16(a) Beneficial Ownership Reporting Compliance" in the 1999 Proxy Statement is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information appearing under "Board of Directors and Committees" and "Executive Compensation" (except for the "Report of the Human Resources And Ethics Committee On Executive Compensation" and

the "Performance Graph") in the 1999 Proxy Statement is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding beneficial ownership of Receipts representing shares of common stock by nominees and directors, by executive officers, by directors and executive officers as a group and by any five percent stockholders appearing under "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners" in the 1999 Proxy Statement is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

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

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

1. The Consolidated Financial Statements of the Company on pages 19 through 36 and the Independent Auditors' Report thereon of KPMG Peat Marwick LLP appearing on page 37 of the 1998 Annual Report.

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

3. Exhibits

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
2(a)(i)	Stock Purchase Agreement dated as of May 23, 1996 between ESCO and GEC-Marconi	Incorporated by Reference, Exhibit 2 [1]
2(a)(ii)	First Amendment Agreement dated as of July 19, 1996 to Stock Purchase Agreement listed as Exhibit 2(a)(i) above	Incorporated by Reference, Exhibit 2 [1]
2(b)(i)	Acquisition Agreement dated December 18, 1996 between the Company and Schawk, Inc.	Incorporated by Reference, Exhibit 2(a) [2]
2(b)(ii)	First Amendment dated as of February 6, 1998 to Acquisition Agreement listed as Exhibit 2(b)(i) above	Incorporated by Reference, Exhibit 2(b) [2]

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3(a)	Restated Articles of Incorporation of ESCO	Incorporated by Reference, Exhibit 3.1 [3]
3(b)	Bylaws of ESCO, as amended	Incorporated by Reference, Exhibit 3(b) [4]
4(a)	Specimen certificate for ESCO's Common Stock Trust Receipts	Incorporated by Reference, Exhibit 4(a) [5]
4(b)	Rights Agreement dated as of September 24, 1990 between ESCO and Boatmen's Trust Company, as	Incorporated by Reference, Exhibit 4.2 [3]
4(c)(i)	Rights Agent Credit Agreement dated as of September 23, 1990 (as amended and restated as of December 30, 1992, amended as of January 15, 1993, October 15, 1993 and November 29, 1993, amended and restated as of May 27, 1994, amended as of August 5, 1994, amended and restated as of September 29, 1995, amended as of June 6, 1996 and August 2, 1996, and amended and restated as of February 7, 1997) among ESCO, Defense Holding Corp., the Banks listed therein and Morgan Guaranty Trust Company of New York, as Agent	Incorporated by Reference, Exhibit 4 [2]
4(c)(ii)	Amendment dated as of May 6, 1997 to Credit Agreement listed as Exhibit 4(c)(i) above	Incorporated by Reference, Exhibit 4(c)(ii)[6]
4(c)(iii)	Amendment dated as of November 21, 1997 to Credit Agreement listed as Exhibit 4(c)(i) above	Incorporated by Reference, Exhibit 4(c)(iii)[6]
4(c)(iv)	Amendment dated as of June 29, 1998 to Credit Agreement listed as Exhibit 4(c)(i) above	Incorporated by Reference, Exhibit 4[7]
	No other long-term debt instruments are filed since the total amount of securities authorized under any such instrument does not exceed ten percent of the total assets of ESCO and its subsidiaries on a consolidated basis. ESCO agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.	

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4(d)	Deposit and Trust Agreement dated as of September 24, 1990 among ESCO, Emerson Electric Co., Boatmen's Trust Company, as Trustee, and the holders of Receipts from time to time	Incorporated by Reference, Exhibit 4.3 [3]
10(a)	Distribution Agreement dated as of September 24, 1990 by and among ESCO, Emerson Electric Co., and ESCO's direct and indirect subsidiaries	Incorporated by Reference, Exhibit 2.1 [3]
10(b)	Tax Agreement dated as of September 24, 1990 by and among ESCO, Emerson Electric Co., and ESCO's direct and indirect subsidiaries	Incorporated by Reference, Exhibit 2.2 [3]
10(c)(i)	1990 Stock Option Plan*	Incorporated by Reference, Exhibit 10.3 [3]
10(c)(ii)	Amendment to 1990 Stock Option Plan dated as of September 4, 1996*	Incorporated by Reference, Exhibit 10(c)(ii) [8]

10(d)	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10(g) [5]
10(e)	Form of Incentive Stock Option Agreement - Alternative*	Incorporated by Reference, Exhibit 10(h) [5]
10(f)	Form of Non-Qualified Stock Option Agreement*	Incorporated by Reference, Exhibit 10(i) [5]
10(g)	Form of Split Dollar Agreement*	Incorporated by Reference, Exhibit 10(j) [4]
10(h)	Form of Indemnification Agreement with each of ESCO's directors.	Incorporated by Reference, Exhibit 10(k) [4]
10(i)	Stock Purchase Agreement dated as of August 20, 1992 by and between Textron, Inc. and ESCO	Incorporated by Reference, Exhibit 10(l) [9]
10(j)(i)	1993 Performance Share Plan*	Incorporated by Reference [10]
10(j)(ii)	Amendment to 1993 Performance Share Plan dated as of September 4, 1996*	Incorporated by Reference, Exhibit 10(j)(ii) [8]
10(k)	Supplemental Executive Retirement Plan as amended and restated as of August 2, 1993*	Incorporated by Reference, Exhibit 10(n) [11]
10(l)(i)	Directors' Extended Compensation Plan*	Incorporated by Reference, Exhibit 10(o) [11]
10(l)(ii)	Compensatory Arrangement with former ESCO director*	Incorporated by Reference, Exhibit 10(l)(ii) [8]
10(m)(i)	1994 Stock Option Plan*	Incorporated by Reference [12]

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10(m)(ii)	Amendment to 1994 Stock Option Plan dated as of September 4, 1996*	Incorporated by Reference, Exhibit 10(m)(ii) [8]
10(n)	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10(n) [13]
10(o)	Form of Non-Qualified Stock Option Agreement*	Incorporated by Reference, Exhibit 10(o) [13]
10(p)	Severance Plan*	Incorporated by Reference, Exhibit 10(p)[13]
10(q)	Performance Compensation Plan dated as of August 2, 1993 (as amended and restated as of October 1, 1995)*	Incorporated by Reference, Exhibit 10(q) [8]
10(r)	1997 Performance Share Plan*	Incorporated by Reference [14]
10(s)	Notice Of Award--stock award to executive officer*	Incorporated by Reference, Exhibit 10(s)[6]
10(t)	Notice of Award--stock award to executive officer*	Incorporated by Reference, Exhibit 10(a)[7]
10(u)	Notice of Award--stock award to executive officer*	Incorporated by Reference, Exhibit 10(b)[7]
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 1998: Five-Year Financial Summary (p. 38) Management's Discussion and Analysis (pgs. 12-18) Consolidated Financial Statements (pgs. 19-36) and Independent Auditors' Report (p. 37) Shareholders' Summary--Capital Stock Information (p. 39) Common Stock Market Prices (p. 38)	
21	Subsidiaries of ESCO	
23	Independent Auditors' Consent	
27	Financial Data Schedule	

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

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

[3] Incorporated by reference to Registration Statement on Form 10, as amended on Form 8 filed September 27, 1990, at the Exhibit indicated

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

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

[6] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1997, at the Exhibit indicated.

[7] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 1998, at the Exhibit indicated.

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

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

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

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

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

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

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

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

(b) No report on Form 8-K was filed during the quarter ended September 30, 1998.

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

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

SIGNATURES

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

ESCO ELECTRONICS CORPORATION

By (s) D. J. Moore

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

Dated: December 18, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below effective December 18, 1998, by the following persons on behalf of the registrant and in the capacities indicated.

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

INDEX TO EXHIBITS

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

Exhibit No. Exhibit

13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 1998: Five-year Financial Summary (p. 38) Management's Discussion and Analysis (pgs. 12-18) Consolidated Financial Statements (pgs. 19-36) and Independent Auditors' Report (p. 37) Shareholders' Summary--Capital Stock Information (p. 39) Common Stock Market Prices (p. 38)
21	Subsidiaries of ESCO
23	Independent Auditors' Consent
27	Financial Data Schedule

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

EXHIBIT 13

FIVE-YEAR FINANCIAL SUMMARY

(Dollars in millions, except per share amounts)	1998(1)	1997(2)	1996(3)	1995(4)	1994
For years ended September 30:					
Net sales	$365.1	378.5	438.5	441.0	473.9
Interest expense	7.7	5.2	4.8	5.5	3.6
Earnings (loss) before income taxes	16.3	17.9	14.8	(29.5)	12.7
Net earnings (loss)	11.3	11.8	26.1	(30.3)	8.3
Earnings (loss) per share:					
Basic	.94	1.00	2.32	(2.76)	.72
Diluted	.90	.96	2.26	(2.76)	.72
As of September 30:					
Working capital	60.3	62.3	86.2	71.4	86.6
Total assets	409.3	378.2	307.8	378.0	347.5
Long-term debt	50.1	50.0	11.4	23.5	25.1
Shareholders' equity	224.1	205.0	191.1	182.3	187.4

(1) Includes the acquisitions of Euroshield (December 31, 1997) and PTA (July 1, 1998) (see Footnote 2 of Notes to Consolidated Financial Statements).

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

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

(4) Includes $16.5 million of other charges related to cost of sales and a change in accounting estimate.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

BUSINESS ENVIRONMENT

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

Overall, 1998 was a challenging yet successful year for ESCO. The Company achieved several significant accomplishments in 1998, including:

-- a 28% increase in entered orders, led by additional Tunner aircraft loaders and M1000 tank transporters at Systems & Electronics Inc. (SEI); two orders totalling $54 million at Distribution Control Systems, Inc. (DCSI) to supply automatic meter reading and electric utility communications systems to Puerto Rico Electric Power Authority (PREPA); and higher volume of filtration/fluid flow products at PTI Technologies Inc. (PTI).

-- achieving an 8% operating profit margin, as adjusted for the $2.5 million one-time charge for the settlement of a long-standing contractual dispute with the U.S. Army on the original M1000 tank trans-porter program. The operating margin improvement occurred despite a slowdown in some of the Company's industrial markets and the impact of the General Motors Corporation strike on the Company's Filtertek operations.

-- the completion of two commercial acquisitions, Euroshield OY, a manufacturer of high-quality shielding products used in the electromagnetic compatibility (EMC) industry, and Advanced Membrane Technology, Inc., a manufacturer of filtration membrane and systems used in a variety of process industries.

-- increasing the commercial sales content to 57% of total revenues.

These accomplishments provide further evidence of management's strategy of deliberate diversification and its ongoing commitment to create shareholder value.

In 1997, the Company significantly strengthened its presence in the fast-growing and profitable filtration industry through its February 1997 acquisition of Filtertek, Inc. (Filtertek). Filtertek, in conjunction with the 1998 commercial acquisitions noted above, effectively increased the commercial content of the Company's sales to over 50% for the first time in the Company's history.

During 1998, the overall defense industrial base continued its consolidation, and ESCO responded to this competitive challenge by continuing to reposition itself to compete in the global marketplace and to apply defense technologies to commercial products. Management continues to believe the Company's strong product diversification and technology niches in its core defense businesses will enable it to compete effectively in the defense market.

New program opportunities in both the defense and commercial segments, in addition to the ongoing commercial acquisitions, effectively reposition the Company's business base for the remainder of the decade. This should allow ESCO to continue to increase its commercial segment contributions while continuing to reduce its overall dependence on its defense business.

ESCO's improved financial position and strong balance sheet at September 30, 1998 should allow the Company to continue its strategy of deliberate diversification through internal new product development and selective acquisitions, thereby increasing shareholder value.

RESULTS OF OPERATIONS

1998 COMPARED WITH 1997

Net sales of $365.1 million in 1998 were $13.4 million (3.5%) lower than net sales of $378.5 million in 1997. The decrease was primarily the result of lower sales of Tunner aircraft loaders and material handling equipment for the U.S. Postal Service at SEI resulting from the timing of the receipt of orders. The 1998 portion of the multi-year Tunner contract was awarded in the fiscal 1998 fourth quarter. The 1998 sales

decrease was partially offset by sales increases at all other operating units. The largest increases in 1998 were recorded at Filtertek ($24.8 million) and PTI ($11 million). Filtertek's 1997 sales of $48.6 million were for eight months of operations subsequent to the February 1997 acquisition.

In 1998, commercial sales were $206.1 million (56.5%) and defense sales were $159.0 million (43.5%) compared with 1997 commercial and defense sales of $187.5 million (49.5%) and $191 million (50.5%), respectively. The increase in 1998 commercial sales is primarily attributable to the inclusion of Filtertek for the full year and additional volume at PTI and DCSI.

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

Firm order backlog was $292.7 million at September 30, 1998, compared to $225 million at September 30, 1997. The increase in backlog reflects the timing of receipt of orders and their related sales throughout the various programs' life cycles, principally at SEI and DCSI. As ESCO continues its transition towards a predominantly commercial company, backlog plays a less significant role as commercial products tend to be ordered by the customer and shipped by the Company within the same fiscal year. Approximately

20% of the September 30, 1998 backlog is expected to be delivered beyond one year.

Orders aggregating $432.7 million were received in 1998, compared with $338.7 million in 1997 reflecting a $94 million (27.8%) increase. The largest increases in orders during 1998 were recorded at DCSI (PREPA), SEI (Tunner) and PTI (filtration/fluid flow), partially offset by decreased orders at Rantec. The most significant orders in 1998 were for filtration/fluid flow products; Tunner aircraft loaders; electric utility communications and automatic meter reading systems; M1000 tank transporters and airborne radar systems.

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

The gross profit margin in 1998 was 26.1% compared to 24.2% in 1997. The improvement in 1998 gross margin compared to the 1997 gross margin is the result of a more favorable sales mix. Although higher, the 1998 gross margin was adversely affected by the $2.5 million claim settlement noted below, the General Motors Corporation strike and Hurricane Georges, which impacted Filtertek in particular, and a slowdown in some of the Company's industrial markets. The 1997 gross margin was negatively impacted by the higher volume of Tunner sales at SEI which were recorded at break-even. The gross profit margin attributable to the commercial segment was consistent in both periods presented.

Other charges related to cost of sales of $2.5 million in 1998 resulted from the Company's settlement of a long-standing contract dispute related to the original M1000 tank transporter program. The settlement agreement requires the customer to pay the Company $7.5 million in 1999, in exchange for the Company dropping its claim for damages and recovery of additional program costs incurred. All units related to the original contract have been delivered. This settlement allows the Company to avoid a lengthy and expensive lawsuit against one of its largest customers, the U.S. Army. After considering all factors, management determined that settling the dispute was in the Company's long-term best interest.

Selling, general and administrative expenses (SG&A) for 1998 were $68.3 million, or 18.7% of net sales, compared with $64.1 million, or 16.9% of net sales, for 1997. The 1998 SG&A expenses included $4.6 million of additional expense at Filtertek as a result of it being included in 1998 for the entire year versus eight months of 1997. The percentage increase in 1998 is the result of lower sales at SEI available to cover certain fixed costs.

Interest expense increased to $7.7 million in 1998 from $5.2 million in 1997, primarily as a result of higher average outstanding borrowings throughout 1998. A significant amount of the outstanding borrowings in 1998 was incurred with the February 1997 acquisition of Filtertek. The timing of operating cash flows throughout 1998 also increased the average outstanding borrowings.

Other costs and expenses, net, decreased in 1998 to $2.9 million from $4.5 million in 1997, primarily due to PTI receiving a $1.6 million lease surrender payment (recorded as other miscellaneous income) from its landlord for agreeing to vacate its current manufacturing facility in Newbury Park, California. The agreement required the landlord to pay PTI $1.6 million immediately upon signing the agreement and to pay an additional $2.9 million on December 31, 2000, or earlier, upon PTI vacating the property. PTI is evaluating its relocation alternatives regarding leasing other appropriate facilities or constructing a new facility. The remainder of other costs and expenses, net was consistent in both periods presented. This account reflects all miscellaneous non-operating costs, including amortization of intangible assets.

Income tax expense of $5.1 million for 1998 reflects deferred tax expense of $6.1 million and foreign, state and local tax benefits of ($1) million. Income tax expense of $6.1 million for 1997 reflects current Federal tax expense of $.2 million, deferred

tax expense of $4.8 million and foreign, state and local taxes of $1 million.

Based on the Company's historical pretax income, adjusted for significant nonrecurring items such as the facilities consolidation program and other costs related to cost of sales, together with management's projection of future taxable income based upon its shift in strategic direction, management believes it is more likely than not that the Company will realize a majority of the benefits of the net deferred tax asset existing at September 30, 1998. In order to realize the aforementioned net deferred tax asset the Company will need to generate future taxable income of approximately $128 million, of which $114 million is required to be realized prior to the expiration of the net operating loss (NOL) carryforwards, of which $33 million will expire in 2006; $6 million will expire in 2007; $23 million will expire in 2009; $38 million will expire in 2010; $7 million will expire in 2011; and $7 million will expire in 2018. These net operating loss carryforwards may be used to reduce future income tax cash payments.

As a result of the sale of Hazeltine in 1996, the Company has available capital loss carryforwards for tax purposes of approximately $77 million. This capital loss may be used as a reduction of future capital gains recognized by the Company, at which time the Company may realize additional tax benefits. Any unused capital loss carryforward will expire in 2001.

The Company's deferred tax valuation allowance of $41 million at September 30, 1998 was comprised of approximately $13.9 million, which represents management's best estimate of the portion of the deferred tax asset associated with temporary differences and NOLs which may not be realized, and a full valuation reserve in the amount of $27.1 million for the portion of the deferred tax asset represented by the capital loss. There can be no assurance, however, that the Company will generate sufficient taxable income or a specified level of continuing taxable income in order to fully utilize the deferred tax assets in the future.

The effective tax rate in 1998 was 30.9% compared with 33.9% in 1997. An analysis of the effective tax rates for 1998, 1997 and 1996 is included in the notes to consolidated financial statements.

1997 Compared with 1996

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

Firm order backlog was $225 million at September 30, 1997, compared to $244 million at September 30, 1996. The decrease in backlog reflects the timing of receipt of orders and related sales throughout the various programs' life cycles, principally at SEI. Order backlog increased $24 million in conjunction with the

February 1997 acquisition of Filtertek. Approximately 11% of the September 30, 1997 backlog was expected to be delivered beyond one year.

Orders aggregating $338.7 million were received in 1997, compared with $296.2 million in 1996 (excluding Hazeltine), reflecting a $42.5 million (14.3%) increase. Orders during 1996 as reported including Hazeltine were $373.6 million. Orders received by

Hazeltine in 1996 prior to its sale were $77.4 million, and orders received by Filtertek since February 1997 were $47.5 million. The largest increases in orders during 1997 were recorded at PTI, Rantec and EMC Test Systems, L.P. (ETS), offset by decreased orders at SEI. The most significant orders in 1997 were for filtration/fluid flow products; M1000 tank transporters; airborne radar systems; EMC test equipment; integrated mail handling and sorting systems; and automatic meter reading equipment.

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

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

The 1996 charge included $14.3 million of inventories related to defense programs which management no longer intended to actively pursue; $6 million of costs included in other assets incurred in anticipation of certain defense contract awards (Precontract Costs) which the Company no longer intended to actively pursue; and a $5 million adjustment in the Company's estimate of recoveries in a contract dispute related to the M1000 tank transporter program. This dispute was subsequently settled in 1998.

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

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

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

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

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

In 1997, the Company reduced its deferred tax valuation allowance by $3.7 million. The deferred tax valuation allowance of $39.6 million at September 30, 1997 included approximately $12.5 million, which represented management's best estimate of the portion of the deferred tax asset associated with temporary differences and NOLs which may not be realized, and a full valuation reserve in the amount of $27.1 million for the portion of the deferred tax asset represented by the capital loss.

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

CAPITAL RESOURCES & LIQUIDITY

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

Net cash provided by operating activities in 1998 was $20.3 million compared to $25.3 million in 1997. The 1998 net cash provided by operating activities was lower than 1997 due to the increased operating working capital requirements. The additional investment in operating working capital in 1998 is the result of increased inventories necessary to support near-term production and delivery requirements, primarily at SEI (Tunner). The 1998 cash investment for inventories was partially offset by the improvement in costs and estimated earnings on long-term contracts and the additional receipt of advance payments on long-term contracts.

Net cash provided by operating activities was $25.3 million in 1997, compared to $1 million in 1996. The 1997 net cash provided by operating activities improved compared to 1996, net of the gain on the sale of Hazeltine, primarily due to the positive impact of 1997 operating earnings.

In 1998 and 1997, capital expenditures of $12.9 million and $10.5 million, respectively, included manufacturing equipment at Filtertek, SEI and PTI. In 1996, capital expenditures of $8.6 million included capitalized facility costs at SEI, process equipment at PTI and capital expenditures of $1.5 million related to Hazeltine. There were no commitments outstanding that were considered material for capital expenditures at September 30, 1998.

At September 30, 1998, the Company had available net operating loss carryforwards (NOLs) for tax purposes of approximately $114 million. These NOLs will expire beginning in year 2006 and ending in year 2018. These NOLs will be used to reduce future Federal income tax cash payments.

On July 1, 1998, the Company completed the acquisition of Advanced Membrane Technology, Inc. (AMT) and renamed the company PTI Advanced Filtration Inc. (PTA). PTA, headquartered in San Diego, California, designs and manufactures several types of filtration membrane and provides filtration systems for a variety of applications in the process industries. The transaction involved the purchase of AMT common stock for approximately $7 million in cash plus approximately 450,000 shares of ESCO Common Stock valued at $8.6 million. The cash portion was financed with the Company's bank credit facility.

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

On February 7, 1997, the Company completed the acquisition of the filtration and the thermoform packaging businesses (Filtertek) of Schawk, Inc. The transaction involved the purchase of assets and stock of certain subsidiary corporations of Schawk, Inc. for $92 million in cash plus working capital adjustments in 1998. The purchase was financed with cash and borrowings from the Company's bank credit facility. Filtertek is a leader in the manufacture of plastic insert injection molded filter assemblies.

The Company's existing $132 million bank credit facility was amended on June 29, 1998 to increase the amount of the outstanding term loan by $7 million to $59 million, and to reduce the revolving credit facility by $7 million to $73 million. The term loan has scheduled amortization payments of $2 million per quarter.

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The revolving credit facility (subject to borrowing base asset limitations) is available for direct borrowings and/or the issuance of letters of credit. The maturity of the bank credit facility is September 30, 2000. These credit facilities are provided by a group of banks, led by Morgan Guaranty Trust Company of New York. At September 30, 1998, the Company had $48.3 million available under the revolving credit facility.

In 1996, the Company authorized an open market share repurchase program for up to two million shares of common stock over a period ended September 30, 1998. Approximately 180,000 shares were repurchased throughout that two-year period. Subsequent to September 30, 1998, the Company authorized an additional open market repurchase program of up to 1.3 million shares, which is subject to market conditions and other factors and will cover a period ending September 29, 2000.

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

All of the Company's debt is priced at a percentage over LIBOR. The Company has reduced this risk through a rate swap agreement that provides a cap on LIBOR of 7% on $50 million of the long-term debt through September 30, 1998, reducing to $40 million through September 30, 1999. The Company does not have significant risk or exposure to fluctuations in foreign currencies, which are hedged in part through the purchase of forward currency contracts.

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

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

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." This Statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. All items that are required to be recognized under accounting standards as components of comprehensive income must be reported in a financial statement with the same prominence as other financial statements. SFAS No. 130 is effective beginning with the Company's first fiscal quarter ending December 31, 1998.

Also in June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". This Statement establishes standards for the manner in which public business enterprises report information about operating segments in interim and annual financial statements, and the related disclosures about products and services, geographic areas and major customers. The effect of adopting this provision is not expected to provide additional disclosures materially different than those previously disclosed by the Company, on an annual basis. SFAS No. 131 is effective beginning with the Company's first fiscal quarter ending December 31, 1998.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106". This Statement amends the disclosure requirements with respect to pension and other postretirement benefits. It does not change any of the current guidance on measurement or recognition related to these areas. SFAS No. 132 is effective for the Company's fiscal year ending September 30, 1999.

In April 1998, the FASB issued Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities". This SOP is

applicable to all non-governmental entities and provides guidance on accounting for start-up activities, including organization costs and pre-contract costs. Pre-contract costs were incurred and

capitalized under the existing guidance provided by SOP 81-1, "Accounting for Performance of Construction-type Contracts". Under the current guidance of SOP 81-1, costs incurred for a specific anticipated contract may be capitalized if these costs can be directly associated with the specific anticipated contract and if their recoverability from that contract is probable. SOP 98-5 amends and supersedes the current guidance of SOP 81-1. The Company is required to adopt this change in accounting principle no later than the first quarter of fiscal year 2000. This change in accounting principle will result in a non-cash, after-tax charge of $15-$25 million, which will be recognized as a cumulative effect of an accounting change. This change will be presented below net earnings.

YEAR 2000 ISSUES

The Year 2000 ("Y2K") issue refers to the inability of a date-sensitive computer program to recognize a two-digit date field designated as "00" as the year 2000. Mistaking "00" for 1900 could result in a system failure or miscalculations causing disruptions to operations, including manufacturing, a temporary inability to process transactions, send invoices, or engage in other normal business activities. This is a significant issue for most, if not all, companies with far-reaching implications, some of which cannot be anticipated or predicted with any degree of certainty.

The Company is currently assessing the magnitude of its Y2K issue and has already determined that it may be required to modify or replace certain portions of its software so that its computer systems will be able to function properly beyond December 31, 1999. This may require certain hardware and software replacement, reprogramming or other remedial action. The Company is also communicating with its suppliers and customers to determine the extent of the Company's vulnerability to the failure of third parties to remediate their own Y2K issue.

In conjunction with this assessment, the Company is implementing its action plans to address the Y2K issue, including contingencies to address unforeseen problems. The Company is using both internal and external resources to complete Y2K reprogramming, hardware and software replacement and testing. Preliminary plans anticipate completion of the Y2K remedial work by September 30, 1999. To date, the Company has incurred approximately $2.5 million related to the Y2K remedial work. The total cost of the Y2K remedial work is estimated to be less than $5 million and, with the exception of certain capitalizable hardware and software costs, will be expensed as incurred over the next 12 months.

The Company is currently exploring contingency planning in the event that vendors, suppliers, customers or other third parties fail to meet Y2K compliance. At present, the Company does not anticipate a material impact internally or externally from Y2K noncompliance.

The expected costs of the project and the date on which the Company plans to complete the Y2K remediation work are based on management's best estimates, which were derived from numerous assumptions about future events, including the availability of certain resources, third-party modification plans, and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause material differences include, but are not limited to, the availability and cost of personnel trained in this area and the ability to identify and correct all relevant computer codes.

ESCO Electronics Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended September 30,

(Dollars in thousands, except per share amounts)	1998	1997	1996
Net sales	$365,083	378,524	438,543
Costs and expenses:			
Cost of sales	267,332	286,790	366,719
Other charges related to cost of sales	2,500	--	25,300
Selling, general and administrative expenses	68,326	64,142	70,464
Interest expense	7,703	5,220	4,781
Other, net	2,875	4,522	5,017
Gain on sale of Hazeltine	--	--	(48,500)
Total costs and expenses	348,736	360,674	423,781
Earnings before income tax	16,347	17,850	14,762
Income tax expense (benefit)	5,051	6,053	(11,374)
Net earnings	$ 11,296	11,797	26,136
Earnings per share:			
Basic	$ .94	1.00	2.32
Diluted	$ .90	.96	2.26

ESCO Electronics Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

Years ended September 30,

(Dollars in thousands)	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	$ 4,241	5,818
Accounts receivable, less allowance for doubtful accounts of $664 and $462 in 1998 and 1997, respectively	51,530	48,612
Costs and estimated earnings on long-term contracts, less progress billings of $51,529 and $56,451 in 1998 and 1997, respectively	26,995	34,907

Inventories	81,579	64,836
Other current assets	2,776	2,794
Total current assets	167,121	156,967
Property, plant and equipment:		
Land and land improvements	14,318	12,449
Buildings and leasehold improvements	47,940	43,573
Machinery and equipment	83,356	74,067
Construction in progress	4,718	4,913
	150,332	135,002
Less accumulated depreciation and amortization	52,323	38,470
Net property, plant and equipment	98,009	96,532
Excess of cost over net assets of purchased businesses, less accumulated amortization of $4,557 and $2,735 in 1998 and 1997, respectively	72,512	54,996
Deferred tax assets	44,740	48,510
Other assets	26,920	21,182
	$409,302	$378,187

CONSOLIDATED BALANCE SHEETS

Years ended September 30, (Dollars in thousands)	1998	1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings and current maturities of long-term debt	$ 30,111	25,500
Accounts payable	39,908	38,238
Advance payments on long-term contracts, less costs incurred of $5,046 and $1,624 in 1998 and 1997, respectively	11,442	6,348
Accrued expenses	25,346	24,590
Total current liabilities	106,807	94,676
Other liabilities	28,339	28,548
Long-term debt	50,077	50,000
Total liabilities	185,223	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 12,641,664 and 12,478,328 shares in 1998 and 1997, respectively	126	125
Additional paid-in capital	200,913	194,663
Retained earnings since elimination of deficit at September 30, 1993	27,277	15,981
Cumulative foreign currency translation adjustments	520	196
Minimum pension liability	(2,260)	(181)
	226,576	210,784
Less treasury stock, at cost (234,025 and 689,945 common shares in 1998 and 1997, respectively)	(2,497)	(5,821)
Total shareholders' equity	224,079	204,963
	$409,302	378,187

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended September 30, (In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Cumulative Foreign Currency Translation Adjustments	Minimum Pension Liability	Treasury Stock
Balance, September 30, 1995	11,574	$ 116	210,205	(21,952)	292	(1,998)	(4,408)
Stock options and stock compensation plans	841	8	3,214	--	--	--	28
Net earnings	--	--	--	26,136	--	--	--
Effect of Corporate Readjustment on taxes	--	--	15,094	--	--	--	--
Cash distribution ($3.00 per share)	--	--	(35,546)	--	--	--	--
Translation adjustments	--	--	--	--	(185)	--	--
Minimum pension liability	--	--	--	--	--	129	--
Balance, September 30, 1996	12,415	124	192,967	4,184	107	(1,869)	(4,380)
Stock options and stock compensation plans	63	1	1,696	--	--	--	45
Net earnings	--	--	--	11,797	--	--	--
Purchases into treasury	--	--	--	--	--	--	(1,486)
Translation adjustments	--	--	--	--	89	--	--
Minimum pension liability	--	--	--	--	--	1,688	--
Balance, September 30, 1997	12,478	125	194,663	15,981	196	(181)	(5,821)
Stock options and stock compensation plans	164	1	1,137	--	--	--	405
Net earnings	--	--	--	11,296	--	--	--
Acquisition of business	--	--	5,113	--	--	--	3,496
Purchases into treasury	--	--	--	--	--	--	(577)
Translation adjustments	--	--	--	--	324	--	--
Minimum pension liability	--	--	--	--	--	(2,079)	--
Balance, September 30, 1998	12,642	$ 126	200,913	27,277	520	(2,260)	(2,497)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended September 30, (Dollars in thousands)	1998	1997	1996
Cash flows from operating activities:			
Net earnings	$ 11,296	11,797	26,136
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	17,460	14,423	13,486
Changes in operating working capital	(11,094)	(2,666)	5,852
Write-off of certain assets	2,500	-	25,300
Gain on sale of Hazeltine	-	-	(48,500)
Effect of deferred taxes on tax provision	6,121	4,816	(12,598)
Other	(5,971)	(3,033)	(8,698)
Net cash provided by operating activities	20,312	25,337	978
Cash flows from investing activities:			
Capital expenditures	(12,896)	(10,526)	(8,558)
Divestiture (acquisition) of businesses	(11,323)	(93,200)	110,000
Net cash provided (used) by investing activities	(24,219)	(103,726)	101,442
Cash flows from financing activities:			
Proceeds from long-term debt	7,000	60,000	-
Principal payments on long-term debt	(7,504)	(15,675)	(15,386)
Net increase (decrease) in short-term borrowings	3,476	18,500	(33,000)
Special cash distribution/purchases of common stock into treasury	(695)	(1,486)	(35,546)
Other	53	659	3,401
Net cash provided (used) by financing activities	2,330	61,998	(80,531)
Net increase (decrease) in cash and cash equivalents	(1,577)	(16,391)	21,889
Cash and cash equivalents at beginning of year	5,818	22,209	320
Cash and cash equivalents at end of year	$ 4,241	5,818	22,209
Changes in operating working capital:			
Accounts receivable, net	$ (1,745)	(2,997)	5,487
Costs and estimated earnings on long-term contracts, net	4,858	(3,048)	(14,382)
Inventories	(17,737)	18,618	20,730
Other current assets	143	734	(15)
Accounts payable	245	(8,522)	133
Advance payments on long-term contracts, net	5,094	(1,988)	(7,183)
Accrued expenses	(1,952)	(5,463)	1,082
	$(11,094)	(2,666)	5,852
Supplemental cash flow information:			
Interest paid	$ 7,521	4,981	4,765
Income taxes paid	353	720	673

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of ESCO Electronics Corporation (ESCO) and its wholly owned subsidiaries (the Company). All significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the 1998 presentation.

(B) BASIS OF PRESENTATION

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

Fair values of the Company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. The estimated fair value of each class of financial instruments approximated the related carrying value at September 30, 1998 and 1997.

(C) NATURE OF OPERATIONS

The Company is engaged in the research, development, manufacture, sale

and support of a wide variety of defense and commercial systems and products. Defense items principally are supplied to the United States Government under prime contracts from the Army, Navy and Air Force and under subcontracts with their prime contractors, and are also sold to foreign customers. Commercial items are supplied to a variety of customers worldwide, and include filtration/fluid flow products sold to aerospace, automotive, industrial and medical/health care markets. Commercial products also include electromagnetic compatibility (EMC) test equipment and communications systems used by electric utilities.

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

(D) USE OF ESTIMATES AND BUSINESS RISKS

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

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

(E) ACCOUNTING CHANGES

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

Effective October 1, 1997, the Company adopted SFAS No. 128, "Earnings Per Share", and SFAS No. 129, "Disclosure of Information about Capital Structure".

(F) REVENUE RECOGNITION

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

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

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

(G) CASH AND CASH EQUIVALENTS

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

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

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

(I) INVENTORIES

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

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

(J) PROPERTY, PLANT AND EQUIPMENT

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

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

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

(L) INCOME TAXES

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

(M) RESEARCH AND DEVELOPMENT COSTS

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

(N) FOREIGN CURRENCY TRANSLATION

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

(O) EARNINGS 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 year presented is as follows:

(In thousands)	1998	1997	1996
Weighted Average Shares Outstanding-- Basic	12,015	11,805	11,262
Dilutive Options and Performance Shares	535	469	318
Adjusted Shares-- Diluted	12,550	12,274	11,580

Options to purchase 84,000, 94,800 and 41,300 shares of common stock at per share prices ranging from $18 to $19.22 in 1998, $12.38 in 1997 and $12 in 1996 were outstanding during the years ended September 30, 1998, 1997 and 1996, respectively, but were not included in the respective computations of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in 2007 and 2008. Approximately 166,000, 338,000 and 53,000 performance shares were outstanding but unearned at September 30, 1998, 1997 and 1996, respectively, and therefore, were not included in the respective computations of diluted EPS. The unearned performance shares expire in 2001.

2. ACQUISITIONS/DIVESTITURES (UNAUDITED)

On July 1, 1998, the Company completed the acquisition of Advanced Membrane Technology, Inc. (AMT) and renamed the company PTI Advanced Filtration Inc. (PTA). PTA, headquartered in San Diego, California, designs and manufactures several types of filtration membrane and provides filtration systems for a variety of applications in the process industries. The transaction involved the purchase of AMT common stock for approximately $7 million in cash plus approximately 450,000 shares of ESCO common stock valued at $8.6 million.

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

On February 7, 1997, the Company completed the acquisition of the filtration and the thermoform packaging businesses (Filtertek) of Schawk, Inc. The transaction involved the purchase of assets and stock of certain subsidiary corporations of Schawk, Inc. for $92 million in cash plus working capital adjustments in 1998. Filtertek is a leader in the manufacture of plastic insert injection molded filter assemblies.

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

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

(Dollars in thousands)	1996
Net sales	$93,987
Cost of sales	75,598
Selling, general and administrative expenses	12,859
Other costs and expenses, net	941
Earnings before income taxes	$ 4,589

All of the Company's acquisitions have been accounted for using the purchase method of accounting, and accordingly, the respective purchase prices were allocated to the assets (including intangible assets) acquired and liabilities assumed based on estimated fair values at the date of acquisition. The excess cost of the acquisitions over the estimated fair value of the net assets acquired is being amortized on a straight-line basis over periods ranging from 15-40 years, depending on management's assessment of its useful life. The financial results from these acquisitions have been included in the Company's financial statements from the date of acquisition.

The following unaudited pro forma financial information assumes the acquisitions of AMT, Euroshield and Filtertek had occurred on October 1, 1996. The pro forma summary is not necessarily indicative of the results of operations that would have occurred had the acquisitions been completed on October 1, 1996, or of future results of operations.

Years ended September 30, (Dollars in thousands)	Pro forma (Unaudited) 1998	1997
Net sales	$ 374,751	416,281
Net earnings	11,421	11,412
Earnings per share:		
Basic	.95	.97
Diluted	.91	.93

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30, 1998 and 1997:

(Dollars in thousands)	1998	1997
U.S. Government and prime contractors	$10,801	11,191
Commercial	38,371	35,482
Other	2,358	1,939
Total	$51,530	48,612

The increase in commercial accounts receivable in 1998 is primarily due to increased sales volume in the fiscal fourth quarter at DCSI.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. INVENTORIES

Inventories consist of the following at September 30, 1998 and 1997:

(Dollars in thousands)	1998	1997
Finished goods	$ 9,491	8,542
Work in process-- including long-term contracts	54,754	42,697
Raw materials	17,334	13,597
Total	$81,579	64,836

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 $14 million and $3.2 million at September 30, 1998 and 1997, respectively.

Work in process includes $24.7 million and $19.7 million at September 30, 1998 and 1997, respectively, of Tunner inventory relating to specific future contract awards. These precontract costs were incurred based on the U.S. Air Force's identified future loader requirements. The Company is currently amortizing these costs over the multi-year contracts as awarded.

5. PROPERTY, PLANT AND EQUIPMENT

Depreciation and amortization of property, plant and equipment for the years ended September 30, 1998, 1997 and 1996 were $14,589,000, $12,441,000 and $12,163,000, respectively.

The Company leases certain real property, equipment and machinery under noncancelable operating leases. Rental expense under these operating leases for the years ended September 30, 1998, 1997 and 1996 amounted to $5,675,000, $4,502,000 and $4,759,000, respectively. Future aggregate minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 1998 are:

(Dollars in thousands) Years ending September 30:	
1999	$ 5,354
2000	3,599
2001	2,822
2002	2,417
2003 and thereafter	2,797
Total	$16,989

6. INCOME TAX EXPENSE (BENEFIT)

The principal components of income tax expense (benefit) for the years ended September 30, 1998, 1997 and 1996 consist of:

(Dollars in thousands)	1998	1997	1996
Federal:			
Current	$ --	223	--
Deferred	6,121	4,816	(12,598)
State, local and foreign	(1,070)	1,014	1,224
Total	$5,051	6,053	(11,374)

The actual income tax expense for the years ended September 30, 1998, 1997 and 1996 differs from the expected tax expense for those years (computed by applying the U.S. Federal statutory rate) as follows:

(Dollars in thousands)	1998	1997	1996
Federal corporate statutory rate	35.0%	35.0%	35.0%
Effect of Corporate Readjustment on temporary differences	--	--	102.2
Net change in the balance of the tax valuation allowance	3.0	(6.8)	100.2
Effect of subsidiary divestiture on temporary differences	--	--	(314.0)
Income taxes, net of Federal benefits:			
State and local	(2.8)	(2.7)	4.3
Foreign	.4	(1.1)	1.1
Other, net	(4.7)	4.1	(5.8)

Effective income tax rate	30.9%	33.9%	(77.0)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 1998, 1997 and 1996 are presented below:

(Dollars in thousands)	1998	1997	1996
Deferred tax assets:			
Inventories, long-term contract accounting, contract cost reserves and others	$ --	7,371	14,538
Pension and other postretirement benefits	10,110	10,272	9,402
Net operating loss carryforwards	39,961	34,036	42,188
Capital loss carryforwards	27,074	27,074	30,567
Other compensation-related costs and other cost accruals	10,815	11,960	2,948
Total deferred tax assets	87,960	90,713	99,643
Deferred tax liabilities:			
Inventories, long-term contract accounting, contract cost reserves and others	(367)	--	--
Plant and equipment, depreciation methods and acquisition asset allocations	(1,883)	(2,640)	(3,011)
Net deferred tax asset before valuation allowance	85,710	88,073	96,632
Less valuation allowance	(40,970)	(39,563)	(43,306)
Net deferred tax asset	$ 44,740	48,510	53,326

Management believes it is more likely than not that with its projections of future taxable income, its shift in strategic direction, and after consideration of the valuation allowance, the Company will generate sufficient taxable income to realize the benefits of the net deferred tax assets existing at September 30, 1998.

In order to fully realize the deferred tax assets existing at September 30, 1998, the Company will need to generate future taxable income of approximately $128 million of which $114 million is required to be realized prior to the expiration of the net operating loss (NOL) carryforwards, of which $33 million will expire in 2006; $6 million will expire in 2007; $23 million will expire in 2009; $38 million will expire in 2010; $7 million will expire in 2011; and $7 million will expire in 2018. Also, the Company will need to generate future capital gains of approximately $77 million prior to 2001, at which time the capital loss carryforward, resulting from the 1996 divestiture of Hazeltine, will expire. There can be no assurance, however, that the Company will generate sufficient taxable income or specified level of continuing taxable income.

During the year ended September 30, 1998, the Company increased its deferred tax valuation allowance to $41 million. A full valuation allowance of $27.1 million is being maintained against the deferred tax asset associated with the capital loss. The remaining balance of $13.9 million represents management's best estimate of the portion of deferred tax asset associated with temporary differences and NOLs which may not be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. DEBT

Long-term debt consists of the following at September 30, 1998 and 1997:

(Dollars in thousands)	1998	1997
Term loan	$57,000	57,000
Other debt	1,188	--
Less current maturities	(8,111)	(7,000)
Long-term debt	$50,077	50,000

The Company's existing $132 million bank credit facility was amended

on June 29, 1998 to increase the amount of the outstanding term loan by $7 million to $59 million, and to reduce the revolving credit facility by $7 million to $73 million. The term loan has scheduled amortization payments of $2 million per quarter. The revolving credit facility (subject to borrowing base asset limitations) is available for direct borrowings and/or the issuance of letters of credit. The maturity of the bank credit facility is September 30, 2000. These credit facilities are provided by a group of banks, led by Morgan Guaranty Trust Company of New York. At September 30, 1998, the Company had $48.3 million available under the revolving credit facility.

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

During 1998 and 1997, the maximum aggregate short-term borrowings at any month-end were $55.5 million and $55 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were $39.8 million and $24.7 million, respectively; and the weighted average interest rates were 6.9% in 1998, 1997 and 1996. The letters of credit issued and outstanding under the credit facility totaled $2.7 million at September 30, 1998 and 1997. Borrowings under the revolving credit facility were $22 million at September 30, 1998.

Other debt of $1.2 million at September 30, 1998 relates to Euroshield borrowings existing at the date of acquisition.

8. CAPITAL STOCK

The 12,641,664 and 12,478,328 common shares as presented in the accompanying consolidated balance sheets at September 30, 1998 and 1997 represent the actual number of shares issued at the respective dates. The Company held 234,025 and 689,945 common shares in treasury at September 30, 1998 and 1997, respectively. The decrease in treasury shares in 1998 is the result of the reissuance of approximately 450,000 treasury shares in conjunction with the July 1998 acquisition of PTA.

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

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

	1998		1997		1996	
	Shares	Estimated Avg. Price	Shares	Estimated Avg. Price	Shares	Estimated Avg. Price
October 1,	998,486	$ 6.18	889,930	$ 6.04	1,135,301	$ 5.77
Granted	89,500	$ 18.14	227,450	$ 10.78	497,250	$ 10.38
Exercised	(107,964)	$ 7.58	(68,371)	$ 6.87	(806,255)	$ 5.77
Cancelled	(26,306)	$ 7.20	(50,523)	$ 9.28	(119,257)	$ 10.31
Repricing	--	--	--	--	182,891	$ 8.06
September 30,	953,716	$ 8.61	998,486	$ 6.18	889,930	$ 6.04
At September 30,						
Reserved for future grant	133,128					
Exercisable	509,559	$ 7.46	404,387	$ 6.18	264,265	$ 6.04

During 1996, the Company announced a stock repurchase program. Under this program, the Company was authorized to purchase up to two million shares of its common stock in the open market through September 30, 1998. Approximately 180,000 shares were repurchased throughout that two-year period. Subsequent to September 30, 1998, the Company authorized an additional open market repurchase program of up to 1.3 million shares, which is subject to market conditions and other factors and will cover a period ending September 29, 2000.

During 1993 and 1997, the Board of Directors authorized, and the shareholders approved, the Performance Share Plans (the Plans). The maximum number of shares available for issue under the Plans is 875,000 shares. As of September 30, 1998, 848,000 shares have been awarded, 503,000 shares have been earned and 310,000 shares have been issued under the terms of the Plans.

At September 30, 1998, there were 50,000 shares of restricted stock outstanding and held by certain key executives. These shares will be earned ratably through the period ending September 30, 2001.

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

The Company adopted the disclosure-only provisions of SFAS No. 123. Under APB No. 25, no compensation cost was recognized for the Company's stock option plans. Had compensation cost for the Company's stock option plans and performance share plans been determined based on the fair value at the grant date for awards in 1998 and 1997 consistent with the provisions of this statement, the Company's net earnings and net earnings per share would have been as follows:

(Dollars in thousands, except per share amounts)	Pro forma (unaudited) 1998	1997
Net earnings	$11,221	10,873
Net earnings per share:		
Basic	.93	.92
Diluted	.89	.89

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 1998 and 1997, respectively: expected dividend yield of 0% in both periods; expected volatility of 37.19% and 35.45%; risk-free interest rate of 4.42% and 6.299% and expected life based on historical exercise periods of 4.11 years

and 3.68 years.

To determine the fair value of grants under the Performance Share Plans, the probability that performance milestones would be met were applied to the ESCO stock price on the date of grant. This probability was based on an estimated average annual growth rate of 10.0% and an annualized volatility of 32.5%.

9. RETIREMENT AND OTHER BENEFIT PLANS

Substantially all employees are covered by defined benefit or defined contribution pension plans maintained by the Company for the benefit of its employees. Benefits are provided to employees under defined benefit pay-related and flat-dollar plans which are primarily noncontributory. Annual contributions to retirement plans equal or exceed the minimum funding requirements of the Employee Retirement Income Security Act or applicable local regulations. Pension expense for the years ended September 30, 1998, 1997 and 1996 is comprised of the following:

(Dollars in millions)	1998	1997	1996
Defined benefit plans:			
Service cost (benefits earned during the period)	$ 3.5	3.3	3.2
Interest cost	6.1	5.4	5.0
Actual return on plan assets	.7	(19.0)	(5.5)
Net amortization and deferral	(7.1)	13.5	.8
Net periodic pension expense	3.2	3.2	3.5
Defined contribution plans	.4	.4	2.1
Total	$ 3.6	3.6	5.6

The funded status of the Company's defined benefit pension plans as of September 30, 1998 and 1997 is shown below:

(Dollars in millions)	1998	1997
Accumulated benefit obligation, including vested benefit obligation of $74.7 and $59.4 at September 30, 1998 and 1997, respectively	$78.7	63.1
Projected benefit obligation	96.0	77.6
Plan assets at fair value, primarily corporate equity and fixed income securities	77.9	78.9
Projected benefit obligation in excess of (less than) plan assets	18.1	(1.3)
Unrecognized transition amount	--	--
Unrecognized net gain (loss)	(7.3)	12.2
Unrecognized prior service costs	(1.9)	(2.5)
Additional minimum liability	4.1	2.3
Net pension liability (included in other liabilities)	$13.0	10.7

The benefit obligations of the defined benefit plans as of September 30, 1998 and 1997 were based on discount rates of 6.75% and 7.5%, respectively, and an assumed rate of increase in compensation levels of 4%. The 1998, 1997 and 1996 pension expense for the defined benefit plans was based on a 6.75%, 7.5% and 7.5% discount rate, respectively, a 4% increase in compensation levels, and a 10% expected long-term rate of return on plan assets.

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

Net periodic postretirement benefit cost is comprised of the following:

(Dollars in millions)	1998	1997	1996

Service cost	$ .2	.2	.2
Interest cost	1.1	1.2	1.3
Net periodic postretirement benefit cost	$1.3	1.4	1.5

Accumulated postretirement benefit obligation as of September 30, 1998 and 1997 is shown below:

(Dollars in millions)	1998	1997
Retirees	$12.1	12.1
Fully eligible active plan participants	.6	.5
Other active participants	3.3	3.0
Total accumulated postretirement benefit obligation	16.0	15.6
Plan assets	-	-
Accumulated postretirement benefit obligation in excess of plan assets	16.0	15.6
Unrecognized prior service cost	.1	.1
Unrecognized net gain (loss)	(1.1)	.1
Accrued postretirement benefit obligation (included in other liabilities)	$15.0	15.8

The accumulated postretirement benefit obligations of the plans as of September 30, 1998 and 1997 were based on discount rates of 6.75% and 7.5%, respectively. The September 30, 1997 accumulated postretirement benefit obligation was based on a health care cost trend of 7.5% for 1998, gradually grading down to an ultimate rate of 5.5% by 2002. The September 30, 1998 accumulated postretirement benefit obligation was based on a health care cost trend of 7% for 1999, gradually grading down to an ultimate rate of 5.5% by 2002. A 1% increase in the health care cost trend rate for each year would increase the September 30, 1998 accumulated postretirement benefit obligation by approximately $400,000.

The 1998, 1997 and 1996 net periodic postretirement benefit costs were based on discount rates of 6.75%, 7.5%, and 7.5%, respectively. The net periodic postretirement benefit cost was based on an assumed health care cost trend of 7.5%, 8% and 8.5% for 1998, 1997 and 1996, respectively, gradually grading down to 5.5% by fiscal 2002. A 1% increase in the health care cost trend rate for each year would increase the aggregate of the service cost and interest cost components of the 1998 net periodic postretirement benefit cost by approximately $35,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. OTHER FINANCIAL DATA

Items charged to operations during the years ended September 30, 1998, 1997 and 1996 included the following:

(Dollars in thousands)	1998	1997	1996
Maintenance and repairs	$ 6,751	5,828	5,826
Salaries and wages	133,507	113,953	136,783
Research and development costs:			
Company-sponsored	$ 5,866	6,161	11,905
Customer-sponsored	10,201	6,341	3,894
Total	$ 16,067	12,502	15,799

The increase in 1998 research and development costs is due to the inclusion of Filtertek for the full year and additional expenditures at Rantec. The decrease in 1997 from 1996 is due to the divestiture of Hazeltine in 1996.

Accrued expenses included accrued employee compensation of $10.2 million and $9.3 million at September 30, 1998 and 1997, respectively.

11. BUSINESS SEGMENT INFORMATION

The Company's principal business segments are defense and commercial. Summarized below is the Company's business segment information for the years ended September 30, 1998, 1997 and 1996. Sales between segments have been eliminated. Corporate expenses and assets have been allocated to the segment data on a systematic basis. Hazeltine primarily operated within the defense segment prior to its divestiture in 1996. Filtertek is included in the commercial results for 1998 and 1997. Operating profit (loss) is calculated as: net sales, less cost of sales, less other charges related to cost of sales, less selling, general and administrative expenses.

(Dollars in thousands)	1998	1997	1996
Net sales:			
Defense	$ 158,944	191,039	300,970
Commercial	206,139	187,485	137,573
	$ 365,083	378,524	438,543
Operating profit (loss):			
Defense	$ 9,682	13,408	(31,842)
Commercial	17,243	14,184	7,902
	$ 26,925	27,592	(23,940)
Identifiable assets:			
Defense	$ 165,136	166,063	191,588
Commercial	244,166	212,124	116,244
	$ 409,302	378,187	307,832
Depreciation and amortization:			
Defense	$ 4,500	4,644	8,001
Commercial	12,960	9,779	5,485
	$ 17,460	14,423	13,486
Capital Expenditures:			
Defense	$ 2,350	3,131	5,204
Commercial	10,546	7,395	3,354
	$ 12,896	10,526	8,558

Net sales derived from U.S. Government agencies, either through direct sales or through prime contractors, totaled $148,273,000, $164,660,000 and $231,503,000 for the years ended September 30, 1998, 1997 and 1996, respectively.

International sales included in net sales for the years ended September 30, 1998, 1997 and 1996 are as follows:

(Dollars in thousands)	1998	1997	1996
Europe	$37,619	31,075	53,856
Middle East	3,944	6,024	19,223
Far East	8,599	17,773	48,391
Other	8,535	13,954	23,215
Total	$58,697	68,826	144,685

The decrease in 1998 compared to 1997 is primarily due to lower Far East defense sales at SEI, partially offset by increased European sales at Filtertek.

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

12. EMERSON CONTRACT GUARANTEES

Emerson has directly or indirectly guaranteed or is otherwise liable for the performance of most of the Company's contracts with its customers which existed at September 30, 1990 (the Guaranteed Contracts). The Guaranteed Contracts include certain U.S. Government contracts entered into by the Company prior to September 30, 1990. As of September 30, 1998, the

aggregate backlog of all firm orders received by the Company included Guaranteed Contracts of $1,591,000. At September 30, 1998, there were open letters of credit with an aggregate value of $2,443,000 related to foreign advance payments in support of various contracts that are directly or indirectly guaranteed by Emerson.

13. COMMITMENTS AND CONTINGENCIES

At September 30, 1998, the Company had $5.1 million in letters of credit outstanding as guarantees of contract performance.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. OTHER CHARGES RELATED TO COST OF SALES

Other charges related to cost of sales of $2.5 million in 1998 resulted from the Company's settlement of a long-standing contract dispute related to the original M1000 tank transporter program. The settlement agreement requires the customer (the U.S. Army) to pay the Company $7.5 million in 1999, in exchange for the Company dropping its claim for damages and recovery of additional program costs incurred.

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

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

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1998					
Net sales	$ 78,077	86,030	98,236	102,740	365,083
Gross profit	22,029	24,596	25,641	22,985	95,251
Net earnings	2,610	3,240	3,847	1,599	11,296
Earnings per share:					
Basic	$ .22	.27	.32	.13	.94
Diluted	.21	.26	.31	.12	.90
1997					
Net sales	$ 68,899	88,811	109,348	111,466	378,524
Gross profit	16,960	22,427	25,513	26,834	91,734
Net earnings	2,182	2,767	3,330	3,518	11,797
Earnings per share:					
Basic	$ .18	.23	.28	.30	1.00
Diluted	.18	.23	.27	.28	.96

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

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

INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS AND SHAREHOLDERS
ESCO ELECTRONICS CORPORATION:

We have audited the accompanying consolidated balance sheets of ESCO Electronics Corporation and subsidiaries as of September 30, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ESCO Electronics Corporation and subsidiaries as of September 30, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1998, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

St. Louis, Missouri
November 11, 1998

SHAREHOLDERS' SUMMARY

CAPITAL STOCK INFORMATION

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

There were approximately 8,700 holders of record of trust receipts representing shares of common stock at September 30, 1998.

COMMON STOCK MARKET PRICES

The Company's common stock trust receipts and the underlying common stock and associated preferred stock purchase rights (subsequently referred to as common stock) are listed on the New York Stock Exchange under the symbol "ESE." The following table summarizes the high and low prices of the Company's common stock for each quarter of 1998 and 1997:

	1998		1997	
Quarter	High	Low	High	Low
First	19 15/16	16 3/16	10 3/8	8 5/8
Second	18 7/16	16	13 1/4	9 7/8
Third	20 3/4	16 5/8	12 13/16	9 5/8
Fourth	19 5/16	8 5/8	18 1/4	12 3/8

EXHIBIT 21

SUBSIDIARIES OF
ESCO ELECTRONICS CORPORATION

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

Exhibit 23

Independent Auditors' Consent

The Board of Directors
ESCO Electronics Corporation:

We consent to incorporation by reference in the registration statements (Nos. 33-39737, 33-47916, and 33-98112) on Form S-8 of ESCO Electronics Corporation of our report dated November 11, 1998, relating to the consolidated balance sheets of ESCO Electronics Corporation and subsidiaries as of September 30, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1998, which report appears in the September 30, 1998 Annual Report on Form 10-K of ESCO Electronics Corporation.

KPMG Peat Marwick LLP

St. Louis, Missouri
December 21, 1998

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