

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended September 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number: 1-10596

ESCO Technologies Inc.

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction
of incorporation or organization)

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

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

63124-1186
(Zip Code)

Registrant's telephone number, including area code:

(314) 213-7200

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Aggregate market value of the Common Stock held by non-affiliates of the registrant as of the close of business on March 31, 2007: \$1,144,087,825*.

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

Number of shares of Common Stock outstanding at November 26, 2007: 25,747,897.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 2007 (the "2007 Annual Report") (Parts I and II).

2. Portions of the registrant's Proxy Statement dated December 19, 2007 (the "2008 Proxy Statement") (Part III).

Table of Contents

ESCO TECHNOLOGIES INC.
INDEX TO ANNUAL REPORT ON FORM 10-K

<u>Item</u>	<u>Description</u>	<u>Page</u>
<u>Part I</u>		
<u>1.</u>	<u>Business</u>	<u>1</u>
	<u>The Company</u>	<u>1</u>
	<u>Products</u>	<u>2</u>
	<u>Marketing and Sales</u>	<u>4</u>
	<u>Intellectual Property</u>	<u>4</u>
	<u>Backlog</u>	<u>5</u>
	<u>Purchased Components and Raw Materials</u>	<u>5</u>
	<u>Competition</u>	<u>5</u>
	<u>Research and Development</u>	<u>6</u>
	<u>Environmental Matters</u>	<u>6</u>
	<u>Government Contracts</u>	<u>6</u>
	<u>Employees</u>	<u>7</u>
	<u>Financing</u>	<u>7</u>
	<u>History of the Business</u>	<u>7</u>
	<u>Available Information</u>	<u>7</u>
<u>1A.</u>	<u>Risk Factors</u>	<u>7</u>
	<u>Forward-Looking Information</u>	<u>11</u>
<u>1B.</u>	<u>Unresolved Staff Comments</u>	<u>12</u>
<u>2.</u>	<u>Properties</u>	<u>12</u>
<u>3.</u>	<u>Legal Proceedings</u>	<u>13</u>
<u>4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	<u>13</u>
	<u>Executive Officers of the Registrant</u>	<u>13</u>
<u>Part II</u>		
<u>5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>14</u>
<u>6.</u>	<u>Selected Financial Data</u>	<u>14</u>
<u>7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>14</u>
<u>7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>14</u>
<u>8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>15</u>

Table of Contents

<u>Item</u>	<u>Description</u>	<u>Page</u>
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	15
9A.	Controls and Procedures	15
9B.	Other Information	15
Part III		
10.	Directors, Executive Officers and Corporate Governance	15
11.	Executive Compensation	16
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	16
	Equity Compensation Plan Information	16
13.	Certain Relationships and Related Transactions, and Director Independence	17
14.	Principal Accounting Fees and Services	18
Part IV		
15.	Exhibits, Financial Statement Schedules	18
SIGNATURES		24
INDEX TO EXHIBITS		25
Form of Exhibits to Option Agreements		
Third Amendment to Directors' Extended Compensation Plan		
Second Amendment to Directors' Extended Compensation Plan		
Third Amendment to 2001 Stock Incentive Plan		
First Amendment to Incentive Compensation Plan for Executive Officers		
Amendment to 1999 Stock Option Plan		
Amendment to Severance Plan		
Amendment to Performance Compensation Plan		
Amendment to Compensation Plan for Non-Employee Directors		
Sections of the 2007 Annual Report to Stockholders		
Subsidiaries of ESCO		
Consent of Independent Registered Public Accounting Firm		
Certification of Chief Executive Officer		
Certification of Chief Financial Officer		
Certification of CEO and CFO		

PART I

Item 1. Business

THE COMPANY

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

Communications:

Distribution Control Systems, Inc. (“DCSI”)
Distribution Control Systems Caribe, Inc.
Hexagram, Inc. (“Hexagram”)
Nexus Energy Software, Inc. (“Nexus”)
Comtrak Technologies, L.L.C. (“Comtrak”)

Filtration/Fluid Flow (“Filtration”):

Filtertek Inc.
Filtertek BV
Filtertek do Brasil Industria E Comercio Ltda.
Filtertek SA
Filtertek De Mexico, S.A. de C.V.
PTI Technologies Inc. (“PTI”)
VACCO Industries (“VACCO”)
TekPackaging LLC

RF Shielding and Test (“Test”):

ETS-Lindgren L.P.
Lindgren RF Enclosures, Inc.
ETS-Lindgren OY
ETS-Lindgren Limited
Beijing Lindgren ElectronMagnetic Technology Co., Ltd.
ETS-Lindgren Japan, Inc.

All of the Filtertek entities listed above are hereinafter collectively referred to as “Filtertek”. All of the Test segment entities listed above are hereinafter collectively referred to as “ETS-Lindgren”.

On November 25, 2007, the Company completed the sale of the Filtertek businesses to Illinois Tool Works Inc. for approximately \$77.5 million in cash, subject to closing working capital adjustments. The net cash proceeds from the sale, estimated at \$70 million after taxes and expenses, will be used to pay down a portion of the debt associated with the Doble Engineering Company acquisition, mentioned below.

The above operating subsidiaries are engaged primarily in the research, development, manufacture, sale and support of the products and systems described below, and are subsidiaries of ESCO Technologies Holding Inc., a wholly-owned direct subsidiary of ESCO. ESCO and its direct and indirect subsidiaries are hereinafter referred to collectively as the “Company”. The Company’s businesses are subject to a number of risks and uncertainties, including without limitation those discussed in Item 1A below. See also “Management’s Discussion and Analysis” appearing in the 2007 Annual Report, which is herein incorporated by reference, and “Forward-Looking Information” below.

On August 10, 2007 ESCO acquired the assets and certain liabilities of Wintec, LLC (Wintec) for a purchase price of \$6 million. Wintec produces metallic filtration products and its business has been incorporated into VACCO’s operations.

On November 7, 2007, ESCO announced an agreement to acquire the stock of Doble Engineering Company, headquartered in Watertown, Massachusetts, for \$319 million in cash, subject

Table of Contents

to adjustment for differences in working capital and cash on hand at closing. The Company intends to fund the acquisition by a combination of existing cash and borrowings under a new credit facility to be entered into with a group led by National City Bank. The acquisition is expected to close in the quarter ending December 31, 2007.

PRODUCTS

The Company's products are described below. See Note 14 of the Notes to Consolidated Financial Statements in the 2007 Annual Report for financial information regarding segments, which Note is herein incorporated by reference.

COMMUNICATIONS

The Communications segment accounted for approximately 37%, 34% and 32% of the Company's total revenue in fiscal years 2007, 2006 and 2005, respectively.

DCSI is a leading manufacturer of two-way power line communication systems for the electric utility industry (the "TWACS® systems"), which are composed of equipment (primarily meter modules and equipment for central stations and substations), software and support services. The TWACS Network Gateway ("TWACS NG") software is being developed with technical assistance from a third-party contractor. This development continued in fiscal 2007, leading to the commercial release of its third version, which was delivered to the customer, and has been undergoing operational testing. Additional versions of this software are currently under development and are scheduled for commercial release in fiscal 2008. The TWACS systems provide electric utilities with a proprietary communication technology for automatic meter reading, load control, interval data, outage assessment/restoration monitoring, remote service disconnect/connect, time-of-use data for critical peak pricing, tamper/theft detection and pre-paid metering. Revenue from the TWACS systems, which may be considered a class of similar products, accounted for approximately 24%, 26% and 28% of the Company's total revenue in fiscal years 2007, 2006 and 2005, respectively. In November 2005, DCSI entered into a contract to provide equipment, software and services to Pacific Gas & Electric (PG&E) in support of the electric portion of PG&E's Advanced Metering Infrastructure (AMI) project. The contract value was initially expected to total approximately \$310 million over a five-year period; however, during the third quarter of fiscal 2007, PG&E announced its plans to request proposals from a small group of vendors in order to evaluate such vendors' ability to address potential future functionality requirements for the electric portion of its service territory currently included in DCSI's contract. For further discussion of this contract and certain related contingencies and uncertainties, see Item 1.A Risk Factors and "Management's Discussion and Analysis — Pacific Gas & Electric" appearing in the 2007 Annual Report.

Hexagram provides, through its STAR® network, wireless RF data communications systems, primarily to gas and water utilities for automatic meter reading applications. In November 2005, Hexagram entered into a contract with PG&E to provide its communications system for the gas meter portion of PG&E's AMI Project. The total anticipated contract revenue through the full five-year deployment is approximately \$225 million. This contract is subject to contingencies and uncertainties similar to those associated with the DCSI — PG&E contract described above, except that the TWACS NG software is not applicable to this contract. PG&E is currently evaluating Hexagram's technology for possible use in the electric portion of its AMI project.

Nexus provides energy companies with software solutions that add value to their existing billing and metering infrastructure to allow both the energy company and its customers to better manage energy-driven transactions and decision-making. Nexus' analytics-based software applications are used by over 100 major energy organizations worldwide.

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

FILTRATION

The Filtration segment accounted for approximately 36%, 38% and 40% of the Company's total revenue in fiscal years 2007, 2006 and 2005, respectively.

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

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

TekPackaging LLC produces highly engineered thermal-formed and security packaging products for medical, food and electronics products.

As previously noted in this report, the Filtertek businesses were sold as of November 25, 2007. Filtertek develops and manufactures a broad range of specialized filtration and fluid/flow 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 healthcare, automotive fluid system, consumer appliance and other commercial and industrial markets. Typical Filtertek customers may require daily production of thousands of units, at very high levels of quality, that are generally produced in highly-automated manufacturing cells. Many of Filtertek's products are produced utilizing patented designs or proprietary product or process design, or both. Filtertek's products are typically supplied to original equipment manufacturers under long-term contracts.

TEST

The Test segment accounted for approximately 27%, 28% and 28% of the Company's total revenue in fiscal years 2007, 2006 and 2005, respectively.

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

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

MARKETING AND SALES

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

The Company's international sales accounted for approximately 23%, 22% and 24% of the Company's total sales in the fiscal years ended September 30, 2007, 2006 and 2005, respectively. See Note 14 of the Notes to Consolidated Financial Statements in the 2007 Annual Report for financial information regarding geographic areas, which Note is herein incorporated by reference. See also Item 1.A Risk Factors for a discussion of risks of the Company's international operations.

Some of the Company's products are sold directly or indirectly to the U.S. Government under contracts with the Army, Navy and Air Force and subcontracts with prime contractors of such entities. Direct and indirect sales to the U.S. Government accounted for approximately 6%, 6% and 8% of the Company's total sales in the fiscal years ended September 30, 2007, 2006 and 2005, respectively.

INTELLECTUAL PROPERTY

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

In the Communications segment, many of the products are based on patented or otherwise proprietary technology, including the Company's TWACS technology. The TWACS systems are protected primarily by a number of patents expiring on various dates ending in 2017. Patents covering significant aspects of the TWACS technology will expire in 2010 for outbound signal reception and in 2017 for inbound signal generation. Other patents covering inbound and outbound signal detection have expired in 2007. The Communications segment policy is to seek patent and/or other forms of intellectual property protection on new and improved products, components of products and methods of operation for its businesses, as such developments are made. The Company plans to protect the TWACS NG software code as a trade secret, although certain discrete features and functionality may be patented. Hexagram holds two significant patents which cover the operation of its STAR® network communications systems. These will expire in 2015 and 2016.

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

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

The Company considers its patent and other intellectual property to be of significant value in each of

[Table of Contents](#)

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

BACKLOG

Total Company backlog, including Filtertek, at September 30, 2007 was \$288.1 million, representing an increase of \$34.7 million (13.7%) from the beginning of the fiscal year backlog of \$253.4 million. The backlog of firm orders at September 30, 2007 and September 30, 2006, respectively, was: \$104.9 million and \$78.6 million for Filtration (of which, \$30.5 million and \$21.3 million, respectively, was for Filtertek); \$123.2 million and \$119.0 million for Communications; and \$60.0 million and \$55.8 million for Test. As of September 30, 2007, it is estimated that, excluding Filtertek, domestic customers accounted for approximately 83% of the Company's total firm orders, and international customers accounted for approximately 17%. Of the Company's total backlog of orders at September 30, 2007, excluding Filtertek, approximately 85% is expected to be completed in the fiscal year ending September 30, 2008.

PURCHASED COMPONENTS AND RAW MATERIALS

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

In the Communications segment, DCSI has arrangements with three independent manufacturers which produce and supply substantially all of DCSI's end-products. Two of these manufacturers are industry leaders with worldwide operations. Each of these manufacturers is directed by DCSI to purchase certain unique raw material components from suppliers designated by DCSI. DCSI also has contracts with certain of the raw material suppliers, directing them to supply such raw materials to DCSI's manufacturers. Hexagram has contracts with two independent manufacturers which produce and supply substantially all of Hexagram's end-products, as well as contracts with several of the suppliers of the raw materials that are incorporated into such end-products. Hexagram also utilizes one of the primary suppliers used by DCSI, which is another source for the production of Hexagram's end-products. The Company believes that the above-described manufacturers and suppliers will be reliable sources for DCSI's and Hexagram's end-products for the foreseeable future.

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

The Test segment is a vertically integrated supplier of EM shielding products, producing most of its critical RF components. However, this segment purchases significant quantities of raw materials such as steel, copper, nickel and wood. Accordingly, the segment is subject to price fluctuations in the worldwide raw materials markets. In fiscal 2007, this segment experienced significant price increases in the metal markets as compared to the prior year.

COMPETITION

Competition in the Company's major markets is broadly based and global in scope. The Company faces intense competition from a large number of companies for nearly all of its products. Competition can be

[Table of Contents](#)

particularly intense during periods of economic slowdown, and this has been experienced in the past in some of the Filtration markets. Although the Company is a leading supplier in several of the markets it serves, it maintains a relatively small share of the business in many of the other markets it serves. Individual competitors range in size from annual revenues of less than \$1 million to billion dollar enterprises. Because of the specialized nature of the Company's products, its competitive position with respect to its products cannot be precisely stated. However, DCSI and Hexagram are believed to be leading suppliers in the fixed network segment of the automatic meter reading ("AMR") market. This fixed network segment comprises a substantial part of the total AMR market for utilities. Substantial efforts are required in order to maintain existing business levels. In the Company's major served markets, competition is driven primarily by quality, technology, price and delivery performance. See Item 1.A Risk Factors.

Primary competitors of the Communications segment in the utility communications market include Itron, Inc., Cellnet+Hunt, Cannon Technologies Inc., Sensus Metering Systems Inc., Elster Electricity, L.L.C, Comverge, Inc. e-Meter Corporation and Oracle Corporation.

Pall Corporation and SoFrance are the primary competitors in the Filtration markets. Other significant competitors in these markets include Clarcor Inc. and Moog Inc.

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

RESEARCH AND DEVELOPMENT

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

The Company performs research and development at its own expense, and also engages in research and development funded by customers. For the fiscal years ended September 30, 2007, 2006 and 2005, total Company-sponsored research and development expenses were approximately \$25.4 million, \$20.0 million and \$16.8 million, respectively. Total customer-sponsored research and development expenses were approximately \$7.6 million, \$6.3 million and \$5.7 million for the fiscal years ended September 30, 2007, 2006 and 2005, respectively. All of the foregoing expense amounts exclude certain engineering costs primarily associated with product line extensions, modifications and maintenance, which amounted to approximately \$9.1 million, \$9.1 million and \$7.8 million for the fiscal years ended September 30, 2007, 2006 and 2005, respectively.

ENVIRONMENTAL MATTERS

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

GOVERNMENT CONTRACTS

The Company's contracts with the U.S. Government and subcontracts with prime contractors of the U.S. Government are primarily firm fixed-price contracts under which work is performed and paid for at a fixed amount without adjustment for the actual costs experienced in connection with the contracts. Therefore,

Table of Contents

unless the customer actually or constructively alters or impedes the work performed, all risk of loss due to cost overruns is borne by the Company. However, VACCO has had an increasing number of "cost plus fixed fee" contracts awarded. All Government prime contracts and virtually all of the Company's subcontracts provide that they may be terminated at the convenience of the Government. Upon such termination, the Company is normally entitled to receive equitable compensation. See "Marketing And Sales" in this Item 1 and Item 1.A Risk Factors for additional information regarding Government contracts.

EMPLOYEES

As of October 31, 2007, the Company employed approximately 2,700 persons.

FINANCING

On October 6, 2004, the Company entered into a \$100 million five-year revolving credit facility with a \$50 million increase option. This facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of six banks, led by Wells Fargo Bank as agent, with a maturity of October 6, 2009. The facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. See "Management's Discussion and Analysis — Capital Resources and Liquidity" in the 2007 Annual Report, and Note 9 of the Notes to Consolidated Financial Statements in the 2007 Annual Report, which information is herein incorporated by reference.

Subsequent to September 30, 2007, the Company announced its intention to enter into a new credit facility led by National City Bank in connection with the Company's anticipated acquisition of Doble Engineering Company.

HISTORY OF THE BUSINESS

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

AVAILABLE INFORMATION

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

Item 1A. Risk Factors

This Form 10-K, including Item 1 "Business," Item 2 "Properties," Item 3 "Legal Proceedings" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" (incorporated by reference to "Management's Discussion and Analysis" appearing in the 2007 Annual Report), contains "forward-looking statements" within the meaning of the safe harbor provisions of the federal securities laws. In addition to the risks and uncertainties discussed elsewhere in this Form 10-K, the following are important risk factors which could cause actual results and events to differ materially from those contained in any forward-looking statements.

A SIGNIFICANT PORTION OF COMMUNICATIONS SEGMENT REVENUES IS GENERATED BY A LIMITED NUMBER OF LARGE CONTRACTS.

A significant portion of the Communications segment's business is dependent on several large contracts with customers. The largest of these are two contracts to separately sell electric and gas automatic meter reading systems to PG&E for its AMI project over a period of approximately five years. These contracts, which represent a potential high source of revenue, are subject to cancellation or reduction in volume by PG&E, delays, regulatory actions and the Company's ability to develop advanced products and successfully perform the contracts. In the third quarter of fiscal 2007, PG&E announced that it was going to evaluate other suppliers' technologies for use in the electric portion of its AMI project. Currently, PG&E has not completed its evaluation. There is no assurance that PG&E will purchase DCSI's systems for all of its electric meters. The loss of revenue which would result from PG&E's selection of other suppliers, cancellations, delays, reductions, regulatory actions or the Company's failure to perform in connection with these contracts could have a material adverse effect on the Company's business, results of operations and financial condition as a whole.

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

Much of the Company's business is dependent on the continuous development of new products and technologies to meet the changing needs of the Company's markets on a cost-effective basis. Many of these markets are highly technical from an engineering standpoint, and the relevant technologies are subject to rapid change. For example, the continued development of the TWACS NG software is critical to the continued sales growth of DCSI. Failure to deliver the final version of the TWACS NG software, to which DCSI has committed under the PG&E contract, could constitute an event of default and adversely impact expected revenues.

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

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

A significant portion of the Company's capitalized software value is contingent on the future sales of TWACS NG software. Failure to generate sufficient sales to recoup costs could result in the impairment of the capitalized software costs.

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

A significant part of the Communications segment's manufacturing operations relies on a small number of third-party manufacturers to supply the segment's products. For example, DCSI has arrangements with three manufacturers which produce and supply substantially all of DCSI's end-products. Two of these suppliers produce these end-products in Mexico. A significant disruption (for example, a strike) in the supply of those products could negatively affect the timely delivery of DCSI's products to customers and future sales. Comtrak currently relies on a single source for a major portion of its products.

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

[Table of Contents](#)

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

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

PRODUCT DEFECTS COULD RESULT IN COSTLY FIXES, LITIGATION AND DAMAGES

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

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

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

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

CHANGES IN TEST STANDARDS COULD ADVERSELY IMPACT TEST SEGMENT SALES

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

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

In fiscal 2007, approximately 23% of the Company's sales were made to international customers. An economic downturn or an adverse change in the political situation in certain foreign countries in which the Company does business could cause a decline in revenues and adversely affect the Company's financial condition. For example, the Test segment does significant business in Asia. Changes in the Asian political climate or political changes in specific Asian countries could negatively affect the Company's business. Softness in the European economy could have a significant adverse effect on the Company's European revenues.

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

foreign customers.

SALES OF GOVERNMENT PRODUCTS DEPEND UPON CONTINUED GOVERNMENT FUNDING.

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

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

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

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

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

ACQUISITIONS OF OTHER COMPANIES CARRY RISK.

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

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

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

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

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

[Table of Contents](#)

even a loss to the Company on a particular project.

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

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

COMPETITION IS BROADLY BASED AND GLOBAL IN SCOPE.

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

FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-K regarding future events and the Company's future results that are based on current expectations, estimates, forecasts and projections about the Company's performance and the industries in which the Company operates, the Company's ability to utilize NOLs, adequacy of the Company's credit facilities and future cash flows, estimates of anticipated contract costs and revenues, the timing, amount and success of claims for research credits, the timing and success of software development efforts and resulting costs, acceptance by PG&E of the final version of DCSI's TWACS NG software, the anticipated value of the PG&E contract, timing of closing the Doble acquisition, the outcome of current litigation, claims and charges, recoverability of deferred tax assets, continued reinvestment of foreign earnings, the impact of FIN 48 and SFAS 157, future costs relating to environmental matters, share repurchases, investments, sustained performance improvement, performance improvement initiatives, growth opportunities, new product development, the Company's ability to increase shareholder value, acquisitions, and other statements contained herein which are not strictly historical are considered "forward-looking statements" within the meaning of the safe harbor provisions of the federal securities laws. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that such statements are only predictions, speak only as of the date of this report, and the Company undertakes no duty to update. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to: those described in this "Item 1A. Risk Factors;" actions by the California Public Utility Commission, PG&E's Board of Directors or PG&E's management impacting PG&E's AMI projects; the timing and success of DCSI's software development efforts; the timing and content of purchase order releases under the PG&E contracts; DCSI's and Hexagram's successful performance of the PG&E contracts; satisfaction of closing conditions to the Doble acquisition; the timing and execution of real estate sales; termination for convenience of customer contracts; timing and magnitude of future contract awards; weakening of economic conditions in served markets; the success of the Company's competitors; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties; the availability of selected acquisitions; the timing, pricing and availability of shares offered for sale; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; the successful sale of the Company's Puerto Rico facility; collective bargaining and labor disputes; changes in laws and regulations including but not limited to changes in accounting standards and taxation requirements; costs relating to environmental matters; litigation

[Table of Contents](#)

uncertainty; and the Company's successful execution of internal operating plans.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company's principal buildings contain approximately 913,700 square feet of floor space. Approximately 357,300 square feet are owned by the Company and approximately 556,400 square feet are leased. See Note 7 of the Notes to Consolidated Financial Statements in the 2007 Annual Report, which information is herein incorporated by reference. The principal plants and offices are as follows*:

<u>Location</u>	<u>Size (Sq. Ft.)</u>	<u>Sq. Ft. Owned/Leased</u>	<u>Lease Expiration Date</u>	<u>Principal Use (Operating Segment)</u>
South El Monte, CA	132,100	Owned-100,100 Leased — 32,000	1-2-2008	Management, Engineering and Manufacturing (Filtration)
Oxnard, CA	127,400	Owned		Management, Engineering and Manufacturing (Filtration)
Durant, OK	100,000	Owned		Manufacturing (Test)
St. Louis, MO	86,800	Leased	3-31-2013 (one 5-year renewal option)	Management and Engineering (Communications)
Huntley, IL	85,000	Owned		Management and Manufacturing (Filtration)
Cedar Park, TX	70,000	Owned		Management, Engineering and Manufacturing (Test)
Cleveland, OH	59,600	Leased	1-31-2011 (four 3-year renewal options)	Management, Engineering and Manufacturing (Communications)
Glendale Heights, IL	59,400	Leased	3-31-2010 (three 3-year renewal options)	Management, Engineering and Manufacturing (Test)
Eura, Finland	40,900	Owned		Management, Engineering and Manufacturing (Test)
Beijing, China	39,600	Leased	4,600 sq. ft. Office 8-30-2010 35,000 sq. ft. Plant 12-31-2009	Manufacturing (Test)
St. Louis, MO	33,000	Owned		Management and Engineering (Communications)
Minocqua, WI	30,200	Leased	3-31-2010 (three 3-year renewal options)	Engineering and Manufacturing (Test)

Table of Contents

<u>Location</u>	<u>Size (Sq. Ft.)</u>	<u>Sq. Ft. Owned/Leased</u>	<u>Lease Expiration Date</u>	<u>Principal Use (Operating Segment)</u>
St. Louis, MO	19,000	Leased	8-31-2015 (one 5-year renewal option)	ESCO Headquarters
Wellesley, MA	18,500	Leased	9-30-2012	Management and Engineering (Communications)
Stevenage, England	12,200	Leased	8-11-2017 (Option to terminate in 2012)	Management, Engineering and Manufacturing (Test)

* The table does not include an owned vacant facility in Patillas, Puerto Rico, consisting of a building of approximately 77,300 square feet, that was formerly used as a Filtration manufacturing facility. The Company ceased operations in this facility in March 2004, and is currently marketing it for sale.

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

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

The following sets forth certain information as of November 26, 2007 with respect to ESCO's executive officers. These officers have been elected to terms which expire at the first meeting of the Board of Directors after the next annual meeting of Stockholders.

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Victor L. Richey, Jr.*	50	Chairman, President, Chief Executive Officer and Director
Gary E. Muenster	47	Senior Vice President and Chief Financial Officer
Alyson S. Barclay	48	Vice President, Secretary and General Counsel

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

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

Since October 2002, Mr. Richey has been Chief Executive Officer of ESCO, and since April 2003 he has also been Chairman. Since October 2006, he has also been President.

Table of Contents

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

Ms. Barclay has been Vice President, Secretary and General Counsel of ESCO since October 1999.

PART II

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

The information required by this item is incorporated herein by reference to Notes 10 and 11 of the Notes to Consolidated Financial Statements, "Common Stock Market Price" and "Shareholders' Summary—Capital Stock Information" appearing in the 2007 Annual Report. As of November 15, 2007, there were approximately 2,700 record holders of Common Stock (including Company employees holding shares under the Employee Stock Purchase Plan). ESCO does not anticipate, currently or in the foreseeable future, paying cash dividends on the Common Stock, although it reserves the right to do so to the extent permitted by applicable law and agreements. ESCO's dividend policy will be reviewed by the Board of Directors at such future time as may be appropriate in light of relevant factors at that time, based on ESCO's earnings and financial position and such other business considerations as the Board deems relevant. See Item 12 for equity compensation plan information.

ISSUER PURCHASES OF EQUITY SECURITIES*:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2007	165,000	\$38.54	165,000	0
August 1-31, 2007	0	N.A.	0	0
Sep. 1-30, 2007	0	N.A.	0	0
Total	165,000	\$38.54	165,000	935,000

* On August 8, 2006, the Board of Directors announced a new common stock repurchase program (the "2006 Program") for a maximum of 1,200,000 shares. The 2006 Program will expire September 30, 2008. There currently is no repurchase program which the Company has determined to terminate prior to the program's expiration, or under which the Company does not intend to make further purchases.

Item 6. Selected Financial Data

The information required by this item is incorporated herein by reference to "Five-Year Financial Summary" and Note 2 of the Notes to Consolidated Financial Statements appearing in the 2007 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 2007 Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is incorporated herein by reference to "Market Risk Analysis" and

Table of Contents

"Quantitative And Qualitative Disclosures About Market Risk" in "Management's Discussion and Analysis" appearing in the 2007 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 23 through 42 and the report thereon of KPMG LLP, an independent registered public accounting firm, appearing on page 44 of the 2007 Annual Report.

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

None.

Item 9A. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d—15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2007. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Management's Report on Internal Control Over Financial Reporting and the attestation report thereon of KPMG LLP are incorporated herein by reference to pages 43 and 45, respectively, in the 2007 Annual Report.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding nominees and directors appearing under "Nominees and Continuing Directors" in the 2008 Proxy Statement is hereby incorporated by reference. Information regarding executive officers is set forth in Part I of this Form 10-K. Information regarding the Audit and Finance Committee and its members appearing under "Board of Directors and Committees" in the 2008 Proxy Statement is hereby incorporated by reference.

Information appearing under "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2008 Proxy Statement is hereby incorporated by reference.

The Company has adopted codes of ethics which apply to its chief executive officer, its chief financial officer and all other senior executives, as well as all Company employees. The following documents are available free of charge through the Company's internet website at www.escotechnologies.com and in print to any person who requests them: Corporate Governance Guidelines; Charters of the Audit and Finance Committee, Human Resources and Compensation Committee, and Nominating and Corporate Governance Committee; Code of Business Conduct and Ethics; and Code of Ethics for Senior Financial Officers.

Item 11. Executive Compensation

Information appearing under “Board of Directors and Committees,” “Executive Compensation,” “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” in the 2008 Proxy Statement is hereby incorporated by reference.

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

The information regarding beneficial ownership of shares of common stock by nominees and directors, by executive officers, by directors and executive officers as a group and by any known five percent stockholders appearing under “Security Ownership of Directors and Executive Officers” and “Security Ownership of Certain Beneficial Owners” in the 2008 Proxy Statement is hereby incorporated by reference.

Equity Compensation Plan Information:

The following table summarizes certain information regarding Common Shares that may be issued by the Company pursuant to its equity compensation plans existing as of September 30, 2007.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders (2)	1,723,001(3)	\$30.35 (4)	1,749,874 (5)(6)
Equity compensation plans not approved by security holders	<u>0</u>	<u>N/A</u>	<u>257,498 (7)</u>
Total	1,723,001	\$30.35	2,007,372

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

(2) Consists of the Company’s 1990, 1994 and 1999 Stock Option Plans, the 2001 Stock Incentive Plan and the 2004 Incentive Compensation Plan. Each of the above-cited Plans has been amended without Stockholder approval in accordance with its terms, as follows: the Company’s 1990, 1994 and 1999 Stock Option Plans have been amended to provide for tax withholding, to provide for adjustment upon a special distribution and in certain other respects; the 1994 and 1999 Stock Option Plans have been amended to reflect the change of the Company’s name and the elimination of the Company’s common stock trust receipts; the 1994 Stock Option Plan was amended to authorize the Human Resources and Compensation Committee (the “Committee”), in its discretion, to: (i) permit an optionee who terminates employment with the approval of the Company to exercise his stock option at any time within three months after termination, but before ten years from the date of grant, and (ii) direct that an option award agreement may permit an optionee who terminates employment on account of retirement on or after age 60 to exercise his stock option up to five years after retirement, but before ten years from the date of grant; the 1990, 1994 and 1999 Stock Option Plans and the 2001 Stock Incentive Plan were amended to authorize the Committee to delegate to any employee the power to extend a stock option beyond termination of employment for persons who are not “officers” as defined in Rule 16a-1 under the Exchange Act; the 1994 and 1999 Stock Option Plans and the 2001 Stock Incentive Plan have been amended to authorize the Committee to delegate to the Chief Executive

Table of Contents

Officer the power to grant stock options to persons who are not such "officers", with the limitation of 10,000 shares per award and 100,000 shares awarded in the aggregate in any fiscal year; the 2001 Stock Incentive Plan and the 2004 Incentive Compensation Plan were amended with respect to Performance Share distributions to: (i) eliminate the participant's option to pay cash for tax withholding and receive all shares due, and (ii) eliminate the participant's option to defer the distribution; the 2004 Incentive Compensation Plan was amended with respect to Performance Share distributions to eliminate the Committee's discretion to determine the percentage of the distribution to be made in shares or to be withheld for tax payments; and, subsequent to September 30, 2007, the 1999 Stock Option Plan, the 2001 Stock Incentive Plan and the 2004 Incentive Compensation Plan were amended in accordance with Section 409A of the Internal Revenue Code of 1986, as amended, to eliminate the Committee's discretion to grant to stock option holders additional alternative stock appreciation rights covering additional shares, under certain circumstances; and in the case of the 2004 Plan, to restrict the payment of dividend equivalents to participants in restricted stock awards to the time when the shares to which the dividend equivalents apply are delivered to the participant.

- (3) Includes 164,060 Common Shares issuable in connection with the vesting and distribution of outstanding performance-accelerated restricted share awards under the Company's 2001 Stock Incentive Plan.
- (4) Does not include 164,060 Common Shares issuable in connection with the vesting and distribution of outstanding performance-accelerated restricted share awards under the 2001 Stock Incentive Plan, for which there are no exercise prices.
- (5) Comprises 4,144 Common Shares under the 1999 Stock Option Plan, 278,987 Common Shares under the 2001 Stock Incentive Plan and 1,466,743 Common Shares under the 2004 Incentive Compensation Plan.
- (6) Does not include shares that may be purchased on the open market pursuant to the Company's Employee Stock Purchase Plan (the "ESPP"). Under the ESPP, participants may elect to have up to 10% of their current salary or wages withheld and contributed to one or more independent trustees for the purchase of Common Shares. At the discretion of an officer of the Company, the Company or a domestic subsidiary or division may contribute cash in an amount not to exceed 20% of the amounts contributed by participants. The total number of Common Shares purchased with the Company's matching contributions, however, may not exceed 183,446. As of September 30, 2007, 36,307 shares had been purchased with the Company's matching funds.
- (7) Represents Common Shares issuable pursuant to the Compensation Plan for Non-Employee Directors (the "Compensation Plan"), which provides for each director to be paid (in addition to other fees) an annual retainer fee payable partially in cash and partially in Common Shares. Periodically, the Human Resources and Compensation Committee of the Board of Directors determines the amount of the retainer fee and the allocation of the fee between cash and Common Shares. The maximum number of Common Shares available for distribution under the Compensation Plan is 400,000 shares. The stock portion of the retainer fee is distributable in quarterly installments. Directors may elect to defer receipt of all of their cash compensation and/or all of the stock portion of the retainer fee. The deferred amounts are credited to the director's deferred compensation account in stock equivalents. Deferred amounts are distributed in Common Shares or cash at such future dates as specified by the director unless distribution is accelerated in certain circumstances, including a change in control of the Company. The stock portion which has been deferred may only be distributed in Common Shares.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information regarding the Company's directors, nominees for directors and members of the committees of the board of directors, and their status of independence appearing under "Board of Directors and Committees" in the 2008 Proxy Statement is hereby incorporated by reference.

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

[Table of Contents](#)

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

Item 14. Principal Accounting Fees and Services

Information regarding the Company's independent auditors, their fees and services, and the Company's Audit and Finance Committee's pre-approval policies and procedures regarding such fees and services appearing under "Independent Public Accountants" in the 2008 Proxy Statement is hereby incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. The Consolidated Financial Statements of the Company on pages 23 through 42 and the Reports of Independent Registered Public Accounting Firm thereon of KPMG LLP appearing on pages 44 and 45 of the 2007 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
-------------------	-------------	---

Table of Contents

3. Exhibits:

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

Table of Contents

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

Table of Contents

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

Table of Contents

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
10.40	First Amendment to 2004 Incentive Compensation Plan effective August 3, 2006*	Incorporated by Reference, Exhibit 10.40[22]
10.41	Employment Agreement with C.J. Kretschmer effective October 1, 2006*	Incorporated by Reference, Exhibit 10.41[22]
10.42	Form of Exhibits (“Non-Compete” and “Change of Control”) to Option Agreements listed as 10.35 and 10.36, above*	
10.43	Third Amendment to Directors’ Extended Compensation Plan effective October 3, 2007*	
10.44	Second Amendment to 2004 Incentive Compensation Plan effective October 3, 2007*	
10.45	Third Amendment to 2001 Stock Incentive Plan effective October 3, 2007*	
10.46	First Amendment to Incentive Compensation Plan for Executive Officers effective October 3, 2007*	
10.47	Amendment to 1999 Stock Option Plan effective October 3, 2007*	
10.48	Amendment to Severance Plan effective October 3, 2007*	
10.49	Amendment to Performance Compensation Plan effective October 3, 2007*	
10.50	Amendment to Compensation Plan for Non-Employee Directors effective October 3, 2007*	
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2007: <ul data-bbox="185 1079 794 1415" style="list-style-type: none"><li data-bbox="185 1079 737 1102">• Management’s Discussion and Analysis (pgs. 12-22)<li data-bbox="185 1111 794 1187">• Consolidated Financial Statements (pgs. 23-42) and Report of Independent Registered Public Accounting Firm (p. 44)<li data-bbox="185 1196 778 1249">• Management’s Report on Internal Control over Financial Reporting (p. 43)<li data-bbox="185 1258 794 1312">• Report of Independent Registered Public Accounting Firm (p.45)<li data-bbox="185 1321 587 1344">• Five-year Financial Summary (p. 46)<li data-bbox="185 1352 587 1375">• Common Stock Market Price (p. 46)<li data-bbox="185 1384 769 1415">• Shareholders’ Summary—Capital Stock Information (p. 48)	

Table of Contents

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
21	Subsidiaries of ESCO	
23	Consent of Independent Registered Public Accounting Firm	
31.1	Certification of Chief Executive Officer	
31.2	Certification of Chief Financial Officer	
32	Certification of Chief Executive Officer and Chief Financial Officer	

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

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

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

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

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

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

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

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

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

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

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

[12] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2002, at the Exhibit indicated.

[13] Incorporated by reference to Form 10-Q for the fiscal quarter ended March 31, 2002, at the Exhibit indicated.

[14] Identical Employment Agreements between ESCO and executive officers A.S. Barclay, G.E. Muenster and V.L. Richey, Jr., except that in the cases of Ms. Barclay and Mr. Muenster the minimum annual salary is \$94,000 and \$108,000, respectively.

[15] Identical Amendments to Employment Agreements between ESCO and executive officers A.S. Barclay, G.E. Muenster and V.L. Richey, Jr.

Table of Contents

[16] Incorporated by reference to Notice of Annual Meeting of the Stockholders and Proxy Statement dated December 11, 2000, at the Exhibit indicated.

[17] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2002, at the Exhibit indicated.

[18] Incorporated by reference to Notice of Annual Meeting of the Stockholders and Proxy Statement dated December 29, 2003, at the Appendix indicated.

[19] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2004, at the Exhibit indicated.

[20] Incorporated by reference to Form 10-Q for the fiscal quarter ended December 31, 2004, at the Exhibit indicated.

[21] Incorporated by reference to Current Report on Form 8-K dated February 2, 2006, at the Exhibit indicated.

[22] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2006, at the Exhibit indicated.

[23] Incorporated by reference to Current Report on Form 8-K dated November 12, 2007, at the Exhibit indicated.

* Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(c) of this Part IV.

(b) Exhibits: Reference is made to the list of exhibits in this Part IV, Item 15(a)3 above.

(c) Financial Statement Schedules: Reference is made to Part IV, Item 15(a)2 above.

SIGNATURES

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

ESCO TECHNOLOGIES INC.

Date: November 26, 2007

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below effective November 26, 2007, by the following persons on behalf of the registrant and in the capacities indicated.

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

INDEX TO EXHIBITS

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

<u>Exhibit No.</u>	<u>Exhibit</u>
10.42	Form of Exhibits (“Non-Compete” and “Change of Control”) to Option Agreements
10.43	Third Amendment to Directors’ Extended Compensation Plan effective October 3, 2007
10.44	Second Amendment to 2004 Incentive Compensation Plan effective October 3, 2007
10.45	Third Amendment to 2001 Stock Incentive Plan effective October 3, 2007
10.46	First Amendment to Incentive Compensation Plan for Executive Officers effective October 3, 2007
10.47	Amendment to 1999 Stock Option Plan effective October 3, 2007
10.48	Amendment to Severance Plan effective October 3, 2007
10.49	Amendment to Performance Compensation Plan effective October 3, 2007
10.50	Amendment to Compensation Plan for Non-Employee Directors effective October 3, 2007
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2007: <ul style="list-style-type: none">• Management’s Discussion and Analysis (pgs. 12-22)• Consolidated Financial Statements (pgs. 23-42) and Report of Independent Registered Public Accounting Firm (p. 44)• Management’s Report on Internal Control over Financial Reporting (p. 43)• Report of Independent Registered Public Accounting Firm (p.45)• Five-year Financial Summary (p. 46)• Common Stock Market Price (p. 46)• Shareholders’ Summary—Capital Stock Information (p. 48)
21	Subsidiaries of ESCO
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer

[Table of Contents](#)

<u>Exhibit No.</u>	<u>Exhibit</u>
32	Certification of Chief Executive Officer and Chief Financial Officer

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

EXHIBIT
(Non-Compete)

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

- a. Carry on any business or become involved in any business activity, which is (i) competitive with the business of the Company (or a subsidiary or joint venture of the Company), as presently conducted and as said business may evolve in the ordinary course, and (ii) a business or business activity in which Optionee was engaged in the course of Optionee's employment with the Company (or a subsidiary or joint venture of the Company);
- b. Recruit, solicit or hire, or assist anyone else in recruiting, soliciting or hiring, any employee of the Company (or any subsidiary or joint venture of the Company), for employment with any competitor of the Company (or of any subsidiary or joint venture of the Company);
- c. Induce or attempt to induce, or assist anyone else to induce or attempt to induce, any customer of the Company (or any subsidiary or joint venture of the Company), with whom Optionee or anyone under Optionee's supervision has dealt, or about whom Optionee has been provided any confidential information, to discontinue, divert, reduce or not renew its business with the Company (or with any subsidiary or joint venture of the Company), or disclose to anyone else any confidential information relating to the identities, preferences, and/or requirements of any such customer; or
- d. Engage in any other conduct inimical, contrary or harmful to the interests of the Company (or any subsidiary or joint venture of the Company), including, but not limited to, conduct related to Optionee's employment, or violation of any Company policy.

Remedies.

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

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

EXHIBIT
(Change of Control)

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

a. The purchase or other acquisition (other than from the Company) by any person, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then-outstanding shares of common stock of the Company or the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of directors; or

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

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

**THIRD AMENDMENT TO ESCO TECHNOLOGIES INC.
DIRECTORS' EXTENDED COMPENSATION PLAN**

WHEREAS, ESCO Technologies Inc. ("Company") adopted the ESCO Technologies Inc. Director's Extended Compensation Plan ("Plan"); and

WHEREAS, the Company retained the right to amend the Plan; and

WHEREAS, the Company desires to amend the Plan effective as of December 31, 2007;

NOW, THEREFORE, effective as of October 3, 2007, the Plan is amended by adding the following sentence at the end Paragraph 3 of Section III:

Any election to receive the actuarial equivalent of the entire benefit in a lump sum, or revocation of such election, that is made by a Director whose annual benefit under Paragraph 1 of Section III has increased since December 31, 2004 (i) shall, if made before January 1, 2008, apply only to amounts that would not otherwise be payable in 2007 and may not cause an amount to be paid in 2007 that would not otherwise be payable in 2007, or (ii) shall, if made after December 31, 2007, be made at least one year prior to the date payment of a lump sum or quarterly installments would otherwise be made or commence, and payment or commencement of such annual benefit shall (except in the case of the death of the director) be deferred for a period of five years from the date such payment would otherwise have been made or commenced.

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 3rd day of October, 2007.

**SECOND AMENDMENT TO THE ESCO TECHNOLOGIES INC.
2004 INCENTIVE COMPENSATION PLAN**

WHEREAS, ESCO Technologies Inc. ("Company") adopted the ESCO Technologies Inc. 2004 Incentive Compensation Plan ("Plan"); and

WHEREAS, the Company retained the right to amend the Plan pursuant to Section 15 thereof; and

WHEREAS, the Company desires to amend the Plan in accordance with Section 409A of the Internal Revenue Code of 1986, as amended;

NOW, THEREFORE, effective as of October 3, 2007, the Plan is amended as follows:

1. The last sentence of Section 8(a) is deleted.
2. The second sentence in Section 10(b) is deleted and replaced with the following:

Any such dividend equivalents shall be paid to the participants awarded the Restricted Stock Award at the time the shares to which the dividend equivalents apply are delivered to the participant.

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 3rd day of October, 2007.

**THIRD AMENDMENT TO THE ESCO TECHNOLOGIES INC.
2001 STOCK INCENTIVE PLAN**

WHEREAS, ESCO Technologies Inc. (“Company”) adopted the ESCO Technologies Inc. 2001 Stock Incentive Plan (“Plan”); and

WHEREAS, the Company retained the right to amend the Plan pursuant to Section 13 thereof; and

WHEREAS, the Company desires to amend the Plan in accordance with Section 409A of the Internal Revenue Code of 1986, as amended;

NOW, THEREFORE, effective as of October 3, 2007, the Plan is amended as follows:

1. The last sentence of Section 8(a) is deleted.

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 3rd day of October, 2007.

**FIRST AMENDMENT TO THE ESCO TECHNOLOGIES INC.
INCENTIVE COMPENSATION PLAN FOR EXECUTIVE OFFICERS**

WHEREAS, ESCO Technologies Inc. (“Company”) adopted the ESCO Technologies Inc. Incentive Compensation Plan for Executive Officers (“Plan”); and
WHEREAS, pursuant to Section IX, the Plan may be amended by action of the Human Resources and Compensation Committee (“Committee”) of the Board of Directors of the Company; and

WHEREAS, the Committee desires to amend the Plan to reflect the actual administration thereof;

NOW, THEREFORE, effective as of October 3, 2007, the Plan is amended as follows:

1. The third and fourth sentences in Section V is deleted and replaced with the following:

Such election must be made no later than the December 31st of the Fiscal Year with respect to which the Incentive Compensation Award is granted by filing with the Executive Compensation Executive an executed form supplied by the Company. Except in the case of hardship described below, such election may only be revoked prior to the December 31st of the Fiscal Year with respect to which the Incentive Compensation Award is granted.

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 3rd day of October, 2007.

**AMENDMENT TO THE ESCO TECHNOLOGIES INC.
1999 STOCK OPTION PLAN**

WHEREAS, ESCO Technologies Inc. ("Company") adopted the ESCO Technologies Inc. 1999 Stock Option Plan ("Plan"); and

WHEREAS, the Company retained the right to amend the Plan pursuant to Section 16 thereof; and

WHEREAS, the Company desires to amend the Plan in accordance with Section 409A of the Internal Revenue Code of 1986, as amended;

NOW, THEREFORE, effective as of October 3, 2007, the Plan is amended as follows:

1. The last sentence of Section 14(a) is deleted.

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 3rd day of October, 2007.

**AMENDMENT TO THE ESCO TECHNOLOGIES INC.
SEVERANCE PLAN**

WHEREAS, ESCO Technologies Inc. (“Company”) adopted the ESCO Technologies Inc. Severance Plan (“Plan”); and

WHEREAS, the Company retained the right to amend the Plan pursuant to Section 10(b) thereof; and

WHEREAS, the Company desires to amend the Plan to assure that benefits thereunder are not subject to Section 409A of the Internal Revenue Code of 1986, as amended;

NOW, THEREFORE, effective as of October 3, 2007, the Plan is amended as follows:

1. The second sentence in Section 3(c) is deleted and replaced with the following:

For the sole and exclusive purposes of this Plan, “Good Reason” shall mean:

(i) any material failure by the Company to comply with any of the provisions of this Plan, including but not limited to Section 9(c), other than a failure to comply with Section 2(b)(iii) solely by reason of a reduction in benefits that applies to all salaried employees who are exempt from the wage and hour provisions of the Fair Labor Standards Act;

(ii) the Company’s requiring the Officer to be based at any office or location other than as provided in Section 2(a)(i);

(iii) a material diminution in the Officer’s authority, duties or responsibilities or his Base Salary;

provided, however, that termination of employment shall be for “Good Reason” only if (i) the Officer provides notice to the Company of the existence of the applicable event described in this paragraph 3(c) no later than 90 days following the initial occurrence of such event, (ii) the Company fails to remedy such event with 30 days after receiving such notice, and (iii) such termination occurs within two years following the initial occurrence of such event.

2. The portion of the first sentence of paragraph 4(a) that precedes subparagraph (i) is deleted and replaced with the following:

If, during the Employment Period, the Company shall terminate the Officer’s employment other than for Cause or Disability, including purported termination (i.e., the Officer is placed on a terminal leave of absence by the Company), or the Officer shall terminate employment for Good Reason:

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 3rd day of October, 2007.

**AMENDMENT TO THE ESCO TECHNOLOGIES INC.
PERFORMANCE COMPENSATION PLAN FOR CORPORATE, SUBSIDIARY
AND DIVISION OFFICERS AND KEY MANAGERS**

WHEREAS, ESCO Technologies Inc. (“Company”) adopted the ESCO Technologies Inc. Performance Compensation Plan for Corporate, Subsidiary and Division Officers and Key Managers (“Plan”); and

WHEREAS, pursuant to Section X, the Plan may be amended by action of the Human Resources and Compensation Committee (“Committee”) of the Board of Directors of the Company; and

WHEREAS, the Committee desires to amend the Plan to reflect the actual administration thereof and to clarify certain provisions under which Performance Compensation Awards, as defined therein, are not subject to Section 409A of the Internal Revenue Code of 1986, as amended;

NOW, THEREFORE, effective as of October 3, 2007, the Plan is amended as follows:

1. The fifth sentence in Section V is deleted and replaced with the following:

Performance Compensation Awards for Participants shall be based upon predetermined performance criteria and/or targets which may include Corporate, Subsidiary, Division or individual performance targets, except that Performance Compensation Awards for Participants who were hired by the Company or a Subsidiary or Division during the Fiscal Year may be totally discretionary as determined by the Committee.

2. The second sentence in Section VI is deleted and replaced with the following:

However, each Participant (other than a Participant who was hired by the Company or a Subsidiary or Division during the Fiscal Year and has been granted a discretionary Award) shall have the right to elect to defer all or part of his or her payment under the Award until the following January.

3. The first sentence of Section VII is deleted and replaced with the following:

If a Participant dies after the end of the Fiscal Year but prior to receiving the entire amounts due under the Plan for such Fiscal Year, if any, such unpaid amounts will be paid in a lump sum to his or her beneficiary at the time such amount would have been paid to the Participant pursuant to Section VI.

4. The fourth sentence of Section IX is deleted and replaced with the following:

Notwithstanding any other provision hereof, and in accordance with this Section IX, in the event a Participant terminates or is terminated by the Company, Subsidiary or Division after the end of the Fiscal Year for retirement at or after age 60, layoff, disability or death, the Committee shall have the sole discretion as to whether any such Award shall be granted, and, if so, the amount of such Award, and any such amount shall be paid at the time determined pursuant to Section VI.

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 3rd day of October, 2007.

**AMENDMENT TO THE ESCO TECHNOLOGIES INC.
COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS**

WHEREAS, ESCO Technologies Inc. (“Company”) adopted the ESCO Technologies Inc. Compensation Plan for Non-Employee Directors (“Plan”); and

WHEREAS, pursuant to paragraph 8, the Plan may be amended by action of the Human Resources and Compensation Committee (“Committee”) of the Board of Directors of the Company; and

WHEREAS, the Committee desires to amend the Plan to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended;

NOW, THEREFORE, effective as of October 3, 2007, the Plan is amended as follows:

1. The second sentence of paragraph 4(b)(ii) is deleted and replaced with the following:

An election to change the medium (cash or stock) of distribution with respect to the Account must be received by the Company prior to January 1 of the calendar year in which distributions are to be made pursuant to such election and must be approved in advance by the HRCC. An election to change the form (lump sum or installments) or time of distribution with respect to the Account must be approved in advance by the HRCC and (i) in the case of any such election received by the Company prior to January 1, 2008, shall apply only to amounts that would not otherwise be payable in 2007 and may not cause an amount to be paid in 2007 that would not otherwise be payable in 2007, and (ii) in the case of any other such election, must be received by the Company at least one year prior to the date such distribution would otherwise be made or commence, and payment or commencement of such distribution shall be deferred for a period of five years (or such longer period elected by the Director) from the date such distribution would otherwise have been made or commenced.

2. Paragraph 4(b)(iii) is deleted and replaced with the following:

Notwithstanding the provisions of paragraph 4(b)(i):

(A) in the event the Director is removed from the Board, the balance in the Account shall be paid in the manner elected by the Director pursuant to paragraph 4(b)(ii), provided that no such payment shall be made or commence prior to January 1, 2008. In the event the Director terminates service on the Board on account of death, the balance in the Account shall be payable in a lump sum in a Cash Distribution within 30 days after January 1 of the following calendar year (the “Cash Distribution Date”). The Cash Distribution shall equal the number of Stock Equivalents then credited to the Account as of the Cash Distribution Date multiplied by the Fair Market Value per share of Common Stock as of the Cash Distribution Date.

3. The second paragraph of paragraph 4(c) is deleted and replaced with the following:

A "Change in Control" shall be defined to mean (i) a merger, consolidation or reorganization of the Company in which, as a consequence of the transaction, a majority of the incumbent Directors immediately prior to such transaction are replaced during the 12-month period following such transaction as directors of the continuing or surviving corporation by directors whose appointment or election is not endorsed by a majority of such incumbent Directors; (ii) the acquisition, directly or indirectly, of the power to vote more than 50% of the outstanding Common Stock and/or any other stock of the Company with voting rights by any person, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934); or (iii) any sale or other transfer, in one or a series of related transactions occurring within a 12-month period, by any person, entity or "group" (within the meaning of Section 409A of the Internal Revenue Code of 1986) of all or substantially all of the assets of the Company.

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 3rd day of October, 2007.

Management's Discussion and Analysis

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto. The years 2007, 2006 and 2005 represent the fiscal years ended September 30, 2007, 2006 and 2005, respectively, and are used throughout the document.

Introduction

ESCO Technologies Inc. and its wholly owned subsidiaries (ESCO, the Company) are organized into three reporting units: Communications, Filtration/Fluid Flow (Filtration), and RF Shielding and Test (Test). The Company's business segments are comprised of the following primary operating entities:

- 4 Communications: Distribution Control Systems, Inc. (DCSI), Hexagram, Inc. (Hexagram), acquired on February 1, 2006, Nexus Energy Software, Inc. (Nexus), acquired on November 29, 2005, and Comtrak Technologies, L.L.C. (Comtrak),
- 4 Filtration: PTI Technologies Inc. (PTI), VACCO Industries (VACCO), and the Filtertek companies (Filtertek),
- 4 Test: EMC Group companies consisting primarily of ETS-Lindgren L.P. (ETS) and Lindgren R.F. Enclosures, Inc. (Lindgren).

The Communications unit is a proven supplier of special purpose fixed network communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. DCSI's Two-Way Automatic Communications System, known as TWACS®, is currently used for automatic meter reading (AMR) and related advanced metering infrastructure (AMI) functions serving over 200 utilities, as well as having load management capabilities. Hexagram's STAR® system, the premier wireless AMI system, delivers two-way and one-way operation on secure licensed radio frequencies for more than 100 utilities serving electric, gas and water customers. Nexus provides best-in-class utility data management solutions to more than 85 leading energy companies that add value to existing billing and metering infrastructure to allow both the utilities and their customers to better manage energy-driven transactions and decision making. Comtrak's SecurVision® product line provides digital video surveillance and security functions for large commercial enterprises and alarm monitoring companies. The Filtration unit develops, manufactures and markets a broad range of filtration products used in the purification and processing of liquids. These engineered filtration products utilize membrane, precision screen and other technologies to protect critical processes and equipment from contaminants. Major applications include the removal of contaminants in fuel, lubrication and hydraulic systems, various health care applications, industrial processing, satellite propulsion systems, and oil processing. The Test unit is the industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy.

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

Highlights of 2007 Operations

- 4 Sales, net earnings and earnings per share were \$527.5 million, \$33.7 million and \$1.28 per share, respectively.
- 4 Net cash provided by operating activities was \$45.3 million.
- 4 At September 30, 2007, cash on hand was \$18.6 million.
- 4 The Company received \$49.1 million in orders from Pacific Gas & Electric (PG&E) related to its electric and gas AMI deployment.
- 4 Successful deployment of upgraded TWACS system software called "TWACS NG" (formerly referred to as TNG) Version 1.6.3 at PG&E, with Version 2.0 delivered in October 2007.
- 4 Hexagram received a \$13.5 million order for a water AMR project in Kansas City, Missouri.
- 4 The Company repurchased \$10 million or 265,000 shares of its common stock during 2007.

Results of Operations

NET SALES

(Dollars in millions)	Fiscal year ended			Change 2007 vs. 2006	Change 2006 vs. 2005
	2007	2006	2005		
Communications	\$ 197.6	156.2	138.0	26.5%	13.2%
Filtration	188.4	174.1	171.7	8.2%	1.4%
Test	141.5	128.6	119.4	10.0%	7.7%
Total	\$ 527.5	458.9	429.1	14.9%	6.9%

Communications

The 26.5% or \$41.4 million increase in net sales in 2007 as compared to the prior year was due to: an increase of \$30.5 million at Hexagram; an increase of \$6.5 million at DCSI; an increase in sales of \$4.6 million at Nexus; partially offset by a \$0.2 million decrease in sales of Comtrak's video security products.

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

Management's Discussion and Analysis

The \$6.5 million increase in sales of DCSI's AMR products in 2007 as compared to 2006 was due to: a \$14.7 million increase in sales to the electric utility cooperative (COOP) market; a \$1.1 million increase in sales to Puerto Rico Electric Power Authority (PREPA); partially offset by \$9.4 million of lower AMR product sales to investor owned utilities (IOUs). Sales to IOUs decreased in 2007 as compared to the prior year due to: a \$21.0 million decrease in sales to TXU (Oncor), partially offset by increases in sales to: Duke Energy of \$6.0 million, EDESUR of \$4.5 million, and Florida Power & Light of \$2.6 million.

The \$18.2 million or 13.2% increase in net sales in 2006 as compared to 2005 was due to: the acquisitions of Hexagram and Nexus with sales of \$18.6 million and \$9.6 million, respectively; partially offset by an \$8.6 million decrease in sales of Comtrak's video security products; and \$1.5 million of lower shipments of DCSI's AMR products.

The \$1.5 million decrease in sales of DCSI's AMR products in 2006 as compared to 2005 was due to: an increase in sales to TXU of \$19.9 million and other IOUs of \$3.0 million; offset by \$16.2 million of lower COOP sales; and an \$8.1 million decrease in sales to PREPA.

Comtrak's sales were \$7.3 million, \$7.5 million, and \$16.1 million in 2007, 2006 and 2005, respectively. The decrease in sales in 2006 as compared to the prior year was due to an acceleration of shipments in 2005 to meet the customer's schedule.

Filtration

Net sales in 2007 increased \$14.3 million or 8.2% compared to the prior year primarily as a result of higher commercial aerospace shipments at PTI of \$6.4 million; a sales increase of \$4.9 million at VACCO driven by higher defense spares and T-700 shipments; and a net sales increase at Filtertek of \$3.2 million driven primarily by higher commercial shipments.

Net sales in 2006 increased \$2.4 million or 1.4% compared to 2005 primarily as a result of higher commercial aerospace shipments at PTI of \$5.6 million, a net sales increase at Filtertek of \$3.3 million driven by higher commercial shipments, partially offset by lower defense spares and T-700 shipments at VACCO of \$6.6 million.

Test

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

The net sales increase of \$9.2 million or 7.7% in 2006 as compared to 2005 was mainly due to: a \$10.2 million increase in net sales from the Company's U.S. operations driven by sales of additional test chambers and higher component sales, a \$0.6 million increase in net sales from the Company's Asian operations; partially offset by a \$1.6 million decrease in net sales from the Company's European operations due to the prior year completion of several test chamber projects.

ORDERS AND BACKLOG

New orders received in 2007 were \$562.2 million, resulting in an order backlog of \$288.1 million at September 30, 2007 as compared to an order backlog of \$253.4 million at September 30, 2006. In 2007, the Company recorded \$201.8 million of new orders related to Communications products, \$214.9 million related to Filtration products, and \$145.5 million related to Test products.

See "CAPITAL RESOURCES AND LIQUIDITY — Pacific Gas & Electric" on page 17 for a discussion of PG&E contracts. The Company received orders totaling \$49.1 million from PG&E under these agreements during 2007.

During 2007, Hexagram received a \$13.5 million order for a water AMR project in Kansas City, Missouri.

In 2006, the Company recorded \$187.5 million of new orders related to Communications products (including \$19.0 million of new orders and \$6.0 million of acquired backlog from Hexagram and \$16.7 million of new orders and \$9.0 million of acquired backlog from Nexus), \$172.1 million related to Filtration products, and \$119.6 million related to Test products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (SG&A) were \$122.5 million, or 23.2% of net sales in 2007, \$106.9 million, or 23.3% of net sales in 2006, and \$84.2 million, or 19.6% of net sales in 2005.

The increase in SG&A expenses in 2007 as compared to the prior year was primarily due to: a \$4.8 million increase in SG&A related to Hexagram (due to a full twelve months of SG&A expenses compared to eight months included in the prior year); an increase of \$4.3 million at DCSI mainly due to an increase in engineering head count; a \$2.9 million increase related to Nexus (due to a full twelve months compared to ten months in the prior year) and an increase in software development head count; an increase of \$2.1 million incurred in the Test segment primarily to support new growth opportunities in Asia; and an \$0.8 million increase at Corporate mainly due to the increase in stock option expense.

The increase in SG&A in 2006 as compared to the prior year was primarily due to: \$7.5 million of SG&A expenses related to Nexus; \$6.8 million of SG&A expenses related to Hexagram; \$2.3 million of stock option expense and higher costs related to engineering and new product development.

Management's Discussion and Analysis

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets was \$10.7 million in 2007, \$6.9 million in 2006 and \$2.0 million in 2005. Amortization of intangible assets included \$2.1 million and \$2.7 million of amortization of acquired intangible assets related to the Hexagram and Nexus acquisitions in 2007 and 2006, respectively. The amortization of acquired intangible assets related to Hexagram and Nexus are included in the Corporate operating segment's results. The remaining amortization expenses consist of other identifiable intangible assets (primarily software, patents and licenses). The Company recorded \$6.2 million and \$2.2 million in 2007 and 2006, respectively, related to DCSI's TWACS NG capitalized software.

OTHER (INCOME) AND EXPENSES, NET

Other (income) and expenses, net, were \$2.5 million, \$(2.8) million and \$(1.6) million in 2007, 2006 and 2005, respectively. Other (income) and expenses, net, in 2007 consisted primarily of: \$2.6 million of expenses within the Test segment related to the adverse arbitration award related to the delivery and installation contract completed in 2005 for a shielded communication room in an international location; partially offset by \$(1.4) million of royalty income.

Other (income) and expenses, net, in 2006 consisted primarily of: a \$(1.8) million non-cash gain representing the reversal of a liability related to an indemnification obligation with respect to a previously divested subsidiary; \$(2.3) million of royalty income; partially offset by a \$0.2 million charge related to the termination of a subcontract manufacturer.

Other (income) and expenses, net, in 2005 consisted primarily of: \$(2.2) million of royalty income; and a \$0.5 million charge related to the termination of a supply agreement with a medical device customer.

ASSET IMPAIRMENT — 2005

In June 2005, the Company abandoned its plans to commercialize certain sensor products within the Filtration segment resulting in an asset impairment charge of \$0.8 million to write off certain patents and a related licensing agreement.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

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

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

(Dollars in millions)	Fiscal year ended			Change 2007 vs. 2006	Change 2006 vs. 2005
	2007	2006	2005		
Communications	\$ 22.0	28.3	38.8	(22.3)%	(27.1)%
% of net sales	11.1%	18.1%	28.1%	(7.0)%	(10.0)%
Filtration	23.4	19.5	22.4	20.0%	(12.9)%
% of net sales	12.4%	11.2%	13.1%	1.2%	(1.9)%
Test	14.4	15.0	12.2	(4.0)%	23.0%
% of net sales	10.2%	11.7%	10.2%	(1.5)%	1.5%
Corporate	(17.8)	(15.2)	(11.4)	17.1%	33.3%
Total	\$ 42.0	47.6	62.0	(11.8)%	(23.2)%
% of net sales	8.0%	10.4%	14.4%	(2.4)%	(4.0)%

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

(Dollars in millions)	2007	2006	2005
EBIT	\$ 42.0	47.6	62.0
Add: Interest income	0.7	1.3	1.9
Less: Income taxes	(9.0)	(17.6)	(20.4)
Net earnings from continuing operations	\$ 33.7	31.3	43.5

Communications

The decrease in EBIT in 2007 as compared to 2006 was due to: a \$10.8 million decrease at DCSI due to an increase in TWACS NG software amortization expense of \$4 million, an increase of \$4.3 million in SG&A expenses mainly due to an increase in engineering head count, an increase in PG&E program support costs and TWACS NG maintenance of \$1.5 million, and higher shipping expense of \$0.9 million; partially offset by an increase of \$4.4 million in EBIT at Hexagram due to the increase in sales volumes related to the PG&E deployment.

The decrease in EBIT in 2006 as compared to 2005 was due to: a \$7.8 million decrease at DCSI due to changes in product mix gross margins (IOU vs. COOP), charges related to a terminated subcontract manufacturer, higher warranty costs and amortization of TWACS NG software; a \$3.8 million decrease at Comtrak due to lower shipments; a \$0.7 million loss at Nexus due to the timing of customer deployments and additional SG&A spending related to engineering and new product initiatives; partially offset by \$1.8 million from Hexagram.

Management's Discussion and Analysis

Filtration

EBIT increased in 2007 as compared to 2006 primarily due to: a \$2.8 million increase at PTI due to higher commercial aerospace shipments; a \$1.7 million increase at VACCO due to higher defense spares shipments; partially offset by a \$0.6 million decrease at Filtrertek due to increased raw material costs.

EBIT decreased in 2006 as compared to 2005 primarily due to: a \$4.3 million decrease at VACCO due to significantly lower defense spares shipments; a \$1.4 million decrease at Filtrertek partly due to increased material costs; partially offset by a \$2.8 million increase at PTI due to higher shipments of aerospace products. The 2005 operating results for Filtrertek included a \$1.9 million gain related to the termination of a supply agreement with a medical device customer that was not repeated in 2006.

Test

The decrease in EBIT in 2007 as compared to 2006 was mainly due to: a \$1.1 million decrease in EBIT from the Company's European operations as a result of lower sales volumes and U.K. facility move costs; partially offset by a \$0.4 million increase in EBIT from the Company's Asian operations on the higher sales volumes. In addition, the Company's current year U.S. operations were negatively impacted by \$2.6 million of total costs associated with the arbitration judgment related to a 2005 U.S. Government project.

The increase in EBIT in 2006 as compared to the prior year was mainly due to: a \$2.1 million increase in EBIT from the Company's U.S. operations driven by sales of additional test chambers and higher component sales; a \$0.4 million increase in EBIT from the Company's European operations; and a \$0.3 million increase in EBIT from the Company's Asian operations.

Corporate

Corporate office operating charges included in consolidated EBIT increased by \$2.6 million in 2007 as compared to 2006 mainly due to: the 2007 absence of a \$1.8 million non-cash gain recorded in 2006 related to an indemnification obligation with respect to a previously divested subsidiary; a \$0.7 million increase in pre-tax stock option expense; \$0.4 million of additional professional fees incurred to support a research tax project; partially offset by a \$0.6 million decrease in pre-tax amortization of acquired intangible assets related to Nexus and Hexagram.

Corporate office operating charges included in consolidated EBIT increased by \$3.8 million in 2006 as compared to 2005 mainly due to: \$2.7 million of pre-tax amortization of acquired intangible assets related to Nexus and Hexagram; \$2.3 million of pre-tax stock option expense; partially offset by a \$1.8 million non-cash gain representing the reversal of a liability related to an indemnification obligation with respect to a previously divested subsidiary. The "Reconciliation to Consolidated Totals (Corporate)" in Note 14 to the Consolidated Financial Statements represents Corporate office operating charges.

INTEREST INCOME

Interest income was \$0.7 million in 2007, \$1.3 million in 2006 and \$1.9 million in 2005. The decrease in interest income in 2007 and 2006 as compared to the prior year periods was due to lower average cash balances on hand resulting from the 2006 acquisitions.

INCOME TAX EXPENSE

The 2007 effective tax rate was 21.1% compared to 36.0% in 2006 and 31.9% in 2005. The decrease in the 2007 effective tax rate as compared to the prior year was due to: the favorable impact of the research tax credit reduced 2007 income tax expense by \$4.4 million and the effective tax rate by 10.3%; resolution of certain tax exposure items reduced current year income tax expense by \$2.3 million and the effective tax rate by 5.3%; the release of a portion of the valuation allowance on capital loss carryforward reduced income tax expense by \$0.8 million and the effective tax rate by 1.8%; and the effect of deferring U.S. tax on foreign earnings and favorable adjustments to foreign tax accruals reduced 2007 tax expense by \$1.1 million and the effective tax rate by 2.7%. During 2007, the Company determined that certain tax accounts had not been accurately recorded in the financial statements for fiscal years 2001 to 2006. The effect in any individual year was not material to the Company's results of operations, financial position or cash flows. The Company recorded \$1.3 million as a cumulative credit adjustment to tax expense to correct previously recorded tax accounts during the fourth quarter of 2007.

The increase in the effective tax rate in 2006 as compared to the prior year was due to: the effect of the foreign earnings repatriation increased 2006 income tax expense by \$2.4 million and the effective rate by 4.8%; the adoption of SFAS 123(R) increased tax expense by \$0.7 million and the effective rate by 1.4%; the lower volume of profit contributions of the Company's foreign operations (primarily Puerto Rico due to the lower sales to PREPA) adversely impacted the tax rate; partially offset by the effect of a favorable change in tax contingencies not related to the research tax credit which decreased tax expense by \$1.4 million and the effective tax rate by 2.9% and the net effect of the research tax credit which favorably impacted tax expense by \$2.5 million and the effective tax rate by 5%.

Capital Resources and Liquidity

Working capital (current assets less current liabilities) increased to \$141.2 million at September 30, 2007 from \$131.4 million at September 30, 2006.

During 2007, cash and cash equivalents decreased \$18.2 million, primarily due to an increase in operating working capital requirements. The \$19.2 million increase in accounts receivable at September 30, 2007 is mainly due to: \$9.9 million related to the Communications segment and \$5.7 million related to the Test

Management's Discussion and Analysis

segment, both due to timing and increased volume of sales. The \$16.9 million increase in inventories at September 30, 2007 is mainly due to an \$11.7 million increase within the Communications segment primarily related to the PG&E deployment. Accounts payable increased by \$15.1 million at September 30, 2007, of which \$6.0 million related to the Test segment and \$3.1 million related to the Communications segment, both due to the timing of vendor payments on the higher level of inventory.

Net cash provided by operating activities was \$45.3 million, \$58.6 million and \$68.6 million in 2007, 2006 and 2005, respectively. The decrease in 2007 is related to an increase in operating working capital requirements. The decrease in 2006 is related to lower net earnings.

Capital expenditures were \$19.5 million, \$9.1 million and \$8.8 million in 2007, 2006 and 2005, respectively. The increase in 2007 compared to 2006 included: approximately \$4 million of manufacturing equipment for the More Energy project at Filtertek Ireland (Filtration segment); approximately \$2 million for the Cedar Park facility expansion (Test segment); approximately \$1 million for the DCSI facility expansion (Communications segment). There were no commitments outstanding that were considered material for capital expenditures at September 30, 2007.

At September 30, 2007, intangible assets, net, of \$77.2 million included \$65.7 million of capitalized software. Approximately \$58.6 million of the capitalized software balance represents software development costs on the TWACS NG software within the Communications segment to further penetrate the IOU market. This software is being deployed to efficiently handle the additional levels of communications dictated by the size of the utility service territories and the frequency of meter reads that are required under time-of-use or critical peak pricing scenarios to meet the requirements of large IOUs. At September 30, 2007, the Company had approximately \$2 million of commitments related to the development of TWACS NG versions 2.0 and 3.0 which is expected to be spent during the first quarter of fiscal 2008. The Company expects to spend up to approximately \$6 million in fiscal 2008 on TWACS NG. Amortization is on a straight-line basis over seven years and began in March 2006. The Company recorded \$6.2 million and \$2.2 million in amortization expense related to TWACS NG during 2007 and 2006, respectively.

At September 30, 2007, the Company had an available net operating loss (NOL) carryforward for U.S. Federal tax purposes of approximately \$35 million. This NOL will expire between 2019 and 2025, and will be available to reduce future Federal income tax cash payments.

The closure and relocation of the Filtertek Puerto Rico facility was completed in March 2004. The Puerto Rico facility is included in other current assets with a carrying value of \$3.6 million at September 30, 2007. The facility is being marketed for sale.

During 2005, the Company reached a settlement in the defense of a certain revenue-generating patent used in the Filtration business. Under the terms of the agreement, the Company received a cash payment of \$1.5 million, and in 2005 the Company recognized a gain of \$0.3 million, after deducting \$0.2 million of professional fees related to the settlement. The unrecognized gain is being recorded on a straight-line basis in Other (income) and expenses, net, over the remaining patent life, through 2011.

ACQUISITIONS

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

On February 1, 2006, the Company acquired the capital stock of Hexagram for a purchase price of approximately \$66 million. The acquisition agreement also provides for contingent consideration of up to \$6.3 million over a five-year period following the acquisition if Hexagram exceeds certain sales targets. During 2007, the Company paid \$1.3 million of contingent consideration. Hexagram is a radio-frequency (RF) fixed network AMI company headquartered in Cleveland, Ohio. Hexagram broadens the Company's served market and provides an RF based AMI system serving primarily electric, gas and water utilities. The operating results for Hexagram, since the date of acquisition, are included within the Communications unit. The Company recorded approximately \$51 million of goodwill and \$3.5 million of trademarks as a result of the transaction. The Company also recorded \$6.6 million of identifiable intangible assets consisting primarily of patents and proprietary know-how, customer contracts, and order backlog which are being amortized on a straight-line basis over periods ranging from six months to seven years.

On November 29, 2005, the Company acquired Nexus through an all cash for shares merger transaction for approximately \$29 million in cash plus contingent cash consideration over the four-year period

Management's Discussion and Analysis

following the merger if Nexus exceeds certain sales targets. Nexus is a software company headquartered in Wellesley, Massachusetts. Nexus broadens the Company's served market and provides software solutions that allow utilities to fully utilize the information produced by the Company's AMI systems. The operating results for Nexus, since the date of acquisition, are included within the Communications unit. The Company recorded approximately \$24 million of goodwill as a result of the transaction. The Company also recorded \$2.7 million of identifiable intangible assets consisting of customer contracts and backlog value which are being amortized on a straight-line basis over periods ranging from one year to three years.

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

PACIFIC GAS & ELECTRIC

In November 2005, DCSI entered into a contract to provide equipment, software and services to Pacific Gas & Electric (PG&E) in support of the electric portion of PG&E's Advanced Metering Infrastructure (AMI) project. Under this contract, equipment is purchased by PG&E only upon issuance of purchase orders and release authorizations. These orders were initially expected to total approximately \$310 million over a five-year period although significant future developments explained in the following paragraph have impacted these expectations and the Company now expresses no opinion as to the amount of orders anticipated under the contract. Under the contract, PG&E continues to retain the right to purchase products or services from other suppliers for the electric portion of the AMI project. DCSI has agreed to deliver to PG&E versions of its newly developed TWACS NG software as it becomes available and is tested. Delivery of the final software version for which DCSI has committed was required in the fourth quarter of fiscal 2007 and is currently anticipated in the first quarter of fiscal 2008. The parties are negotiating an amendment to the current contract to conform to the parties' performance, including DCSI's anticipated software delivery date. In accordance with U.S. generally accepted accounting standards, the Company will defer all revenue related to DCSI's arrangement with PG&E until all software is delivered and acceptance criteria have been met. The contract provides for liquidated damages in the event of DCSI's late development or delivery of hardware and software, and includes indemnification and other customary provisions. The contract may be terminated by PG&E for default, for its convenience and in the event of a force majeure lasting beyond certain prescribed periods. The Company has guaranteed the obligations of DCSI under the contract. If PG&E terminates the contract for its convenience, DCSI will be entitled to recover certain costs.

During the third quarter of 2007, PG&E announced its plans to request information and proposals from a small group of vendors in order to evaluate such vendors' ability to address potential future functionality requirements for the electric portion of its service territory currently included in DCSI's contract. In July 2007, PG&E issued requests for proposals (RFPs) to a group of vendors, including the Company, for PG&E's electric requirements. Prior to PG&E's issuance of this RFP, Hexagram agreed to provide 2,000 of its RF fixed network electric units for PG&E testing. Testing of Hexagram's electric solution began in the fourth quarter of 2007. PG&E's current activities will impact the timing and/or receipt of future orders from PG&E for its electric deployment and, until PG&E completes this evaluation and determines whether it will modify its AMI project plan, the Company cannot estimate the total value or the timing of orders that may be received under the DCSI PG&E contract.

In November 2005, Hexagram entered into a contract to provide equipment, software and services to PG&E in support of the gas utility portion of PG&E's AMI project. Hexagram's contract also provided PG&E the option to purchase an RF based electric product from Hexagram. The total anticipated contract revenue from commencement through the five-year full deployment is expected to be up to approximately \$225 million excluding any potential purchases of Hexagram's RF based electric product. As with DCSI's contract with PG&E, equipment will be purchased only upon issuance of purchase orders and release authorizations, and PG&E will continue to have the right to purchase products or services from other suppliers for the gas utility portion of the AMI project. The contract provides for liquidated damages in the event of late deliveries, includes indemnification and other customary provisions, and may be terminated by PG&E for default, for its convenience and in the event of a force majeure lasting beyond certain prescribed periods. The Company has guaranteed the performance of the contract by Hexagram.

BANK CREDIT FACILITY

Effective October 6, 2004, the Company entered into a \$100 million five-year revolving bank credit facility with a \$50 million increase option that has a final maturity and expiration date of October 6, 2009. The credit facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of six banks, led by Wells Fargo Bank as agent.

The credit facility requires, as determined by certain financial ratios, a commitment fee ranging from 17.5 to 27.5 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the LIBOR or based on the prime rate, at the Company's election. The credit facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility include limitations on leverage, minimum consolidated EBITDA and minimum net worth.

Management's Discussion and Analysis

At September 30, 2007, the Company had approximately \$96.4 million available to borrow under the credit facility in addition to its \$18.6 million cash on hand. At September 30, 2007, the Company had outstanding short-term borrowings of \$2.8 million, and outstanding letters of credit of \$3.6 million (\$0.8 million outstanding under the credit facility). As of September 30, 2007, the Company was in compliance with all bank covenants.

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

Subsequent to September 30, 2007, the Company announced its intention to enter into a new credit facility led by National City Bank in connection with the acquisition of Doble Engineering Company. See "Subsequent Events" under Management's Discussion and Analysis.

CONTRACTUAL OBLIGATIONS

The following table shows the Company's contractual obligations as of September 30, 2007:

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Long-Term Debt Obligation	\$ —	—	—	—	—
Capital Lease Obligations	0.9	0.3	0.4	0.2	—
Operating Lease Obligations	26.4	6.6	9.7	6.7	3.4
Purchase Obligations ⁽¹⁾	2.0	2.0	—	—	—
Total	\$ 29.3	8.9	10.1	6.9	3.4

(1) A purchase obligation is defined as a legally binding and enforceable agreement to purchase goods and services that specifies all significant terms. Since the majority of the Company's purchase orders can be cancelled, they are not included in the table above. TWACS NG software development costs for version 2.0 and version 3.0 are included.

The Company has no off balance sheet arrangements outstanding at September 30, 2007.

SHARE REPURCHASES

In August 2006, the Company's Board of Directors authorized an open market common stock repurchase program for up to 1.2 million shares, subject to market conditions and other factors which covers the period through September 30, 2008. The Company repurchased \$10 million or 265,000 shares in 2007 under this program. There were no stock repurchases during 2006. The Company repurchased \$25 million or 670,072 shares in 2005 under a previously authorized program.

PENSION FUNDING REQUIREMENTS

The minimum cash funding requirements related to the Company's defined benefit pension plans are approximately \$0.5 million in 2008, approximately \$1.75 million in 2009 and approximately \$1.25 million in 2010. The Company made a voluntary cash contribution of \$1.4 million in 2006.

SUBSEQUENT EVENTS

On November 7, 2007, the Company announced an agreement to acquire the stock of Doble Engineering Company, headquartered in Watertown, Massachusetts, for \$319 million in cash, subject to adjustment for differences in working capital and cash on hand at closing. The Company intends to fund the acquisition by a combination of existing cash and borrowings under a new credit facility led by National City Bank. The transaction is expected to close in the quarter ending December 31, 2007.

On November 26, 2007, the Company announced it had completed the sale of the filtration portion of Filtertek Inc. to Illinois Tool Works Inc. (ITW) for approximately \$77.5 million in cash, subject to closing working capital adjustments. The Tek Packaging division of Filtertek is not included in the transaction. The net cash proceeds from the sale, estimated at \$70 million after taxes and expenses, will be used to pay down a portion of the debt associated with the Doble Engineering Company acquisition, mentioned above. The Company expects to record a gain on the sale for both financial reporting and tax purposes, with a portion of the tax gain being shielded from cash payments through the utilization of the Company's existing capital loss carryforward which was generated from prior divestitures.

OTHER

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

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

Management's Discussion and Analysis

Market Risk Analysis

MARKET RISK EXPOSURE

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates.

At September 30, 2007 and 2006, the Company had no obligations related to interest rate swaps.

The Company is also subject to foreign currency exchange rate risk inherent in its sales commitments, anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. The foreign currency most significant to the Company's operations is the Euro. Net sales to customers outside of the United States were \$121.2 million, \$103.0 million, and \$103.8 million in 2007, 2006 and 2005, respectively. The Company hedges certain foreign currency commitments by purchasing foreign currency forward contracts. The estimated fair value of open forward contracts at September 30, 2007 was not material.

Critical Accounting Policies

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

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

REVENUE RECOGNITION

Communications Unit: Within the Communications unit, approximately 95% of the unit's revenue arrangements (approximately 35% of consolidated revenues) contain software components. Revenue under these arrangements is recognized in accordance with Statement of Position 97-2 (SOP 97-2), "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." The application of software revenue recognition requires judgment, including the determination of whether a software arrangement includes multiple elements and estimates of the fair value of the elements, or vendor-specific objective evidence of fair value ("VSOE"). Changes to the elements in a software arrangement, and the ability to identify VSOE for those elements could materially impact the amount of earned and/or deferred revenue. There have been no material changes to these estimates for the financial statement periods presented and the Company believes that these estimates generally should not be subject to significant variation in the future. The remaining 5% of the unit's revenues represent products sold under a single element arrangement and are recognized when products are delivered to unaffiliated customers.

Filtration Unit: Within the Filtration operating unit, approximately 80% of operating unit revenues (approximately 30% of consolidated revenues) are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers.

Approximately 20% of operating unit revenues (approximately 5% of consolidated revenues) are recorded under the percentage-of-completion provisions of SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" because the Company manufactures complex products for aerospace and military customers under production contracts. The percentage-of-completion method of accounting involves the use of various estimating techniques to project costs at completion. These estimates involve various assumptions and projections relative to the outcome of future events over a period of several years, including future labor productivity and availability, the nature and complexity of the work to be performed, availability of materials, the impact of delayed performance, and the timing of product deliveries. These estimates are based on Management's judgment and the Company's substantial experience in developing these types of estimates. Changes in underlying assumptions/estimates may adversely affect financial performance if they increase estimated project costs at completion, or positively affect financial performance if they decrease estimated

Management's Discussion and Analysis

project costs at completion. Due to the nature of these contracts and the operating unit's cost estimating process, the Company believes that these estimates generally should not be subject to significant variation in the future. There have been no material changes to these estimates for the financial statement periods presented. The Company regularly reviews its estimates to assess revisions in contract values and estimated costs at completion.

Test Unit: Within the Test unit, approximately 50% of revenues (approximately 15% of consolidated revenues) are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers. Certain arrangements contain multiple elements which are accounted for under the provisions of EITF 00-21, "Revenue Arrangements with Multiple Deliverables." The application of EITF 00-21 requires judgment as to whether the deliverables can be divided into more than one unit of accounting and whether the separate units of accounting have value to the customer on a stand-alone basis. Changes to these elements could affect the timing of revenue recognition. There have been no material changes to these elements for the financial statement periods presented.

Approximately 50% of the unit's revenues (approximately 15% of consolidated revenues) are recorded under the percentage-of-completion provisions of SOP 81-1, "Accounting for the Performance of Construction-Type and Certain Production-Type Contracts" due to the complex nature of the enclosures that are designed and produced under these contracts. As discussed above, this method of accounting involves the use of various estimating techniques to project costs at completion, which are based on Management's judgment and the Company's substantial experience in developing these types of estimates. Changes in underlying assumptions/ estimates may adversely or positively affect financial performance. Due to the nature of these contracts and the operating unit's cost estimating process, the Company believes that these estimates generally should not be subject to significant variation in the future. There have been no material changes to these estimates for the financial statement periods presented. The Company regularly reviews its contract estimates to assess revisions in contract values and estimated costs at completion.

INVENTORY

Inventories are valued at the lower of cost (first-in, first-out) or market value. Management regularly reviews inventories on hand compared to historical usage and estimated future usage and sales. Inventories under long-term contracts reflect accumulated production costs, factory overhead, initial tooling and other related costs less the portion of such costs charged to cost of sales and any unliquidated progress payments. In accordance with industry practice, costs incurred on contracts in progress include amounts relating to programs having production cycles longer than one year, and a portion thereof may not be realized within one year.

INCOME TAXES

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

While the Company has support for the positions taken on its tax returns, taxing authorities are increasingly asserting alternate interpretations of laws and facts, and are challenging cross jurisdictional transactions. Cross jurisdictional transactions between the Company's subsidiaries involving transfer prices for products and services, as well as various U.S. Federal, state and foreign tax matters, comprise the Company's income tax exposures. Management regularly assesses the Company's position with regard to tax exposures and records liabilities for these uncertain tax positions and related interest and penalties, if any, according to the principles of SFAS No. 5, "Accounting for Contingencies." The Company has recorded an accrual that reflects Management's estimate of the likely outcome of current and future audits. A final determination of these tax audits or changes in Management's estimates may result in additional future income tax expense or benefit.

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

Management's Discussion and Analysis

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

GOODWILL AND OTHER LONG-LIVED ASSETS

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

PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

The measurement of liabilities related to pension plans and other post-retirement benefit plans is based on Management's assumptions related to future events including interest rates, return on pension plan assets, rate of compensation increases, and health care cost trend rates. Actual pension plan asset performance will either decrease or increase unamortized pension losses that will affect net earnings in future years. Depending upon the performance of the equity and bond markets in 2008, the Company could be required to record a charge to equity. In addition, if the discount rate was decreased by 25 basis points from 6.25% to 6.00%, the projected benefit obligation for the defined benefit plan would increase by approximately \$1.0 million and result in an additional after-tax charge to shareholders' equity of approximately \$1.0 million. The discount rate used in measuring the Company's pension and postretirement welfare obligations was developed by matching yields of actual high-quality corporate bonds to expected future pension plan cash flows (benefit payments). Over 500 Aa-rated, non-callable bonds with a wide range of maturities were used in the analysis. After using the bond yields to determine the present value of the plan cash flows, a single representative rate that resulted in the same present value was developed.

Other Matters

CONTINGENCIES

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. At September 30, 2007 and 2006, the Company had no obligations related to interest rate swaps. See further discussion in "Management's Discussion and Analysis — Market Risk Analysis" regarding the Company's market risks.

CONTROLS AND PROCEDURES

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

Management's Discussion and Analysis

New Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company estimates that the adoption of FIN 48 will result in an increase to the opening balance of retained earnings as of October 1, 2007 in the range of zero to \$5 million for income tax benefits not previously recognized.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which amends SFAS 87 and SFAS 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects. The measurement date — the date at which the benefit obligation and plan assets are measured — is required to be the Company's fiscal year-end, which is the date the Company currently uses. SFAS 158 is effective for publicly held companies for fiscal years ending after December 15, 2006. The Company adopted the provisions of SFAS 158 as of September 30, 2007 and recorded a pre-tax credit of \$0.9 million to accumulated other comprehensive income in equity.

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

Forward-Looking Information

Statements regarding future events and the Company's future results that are based on current expectations, estimates, forecasts and projections about the Company's performance and the industries in which the Company operates, the Company's ability to utilize NOLs, adequacy of the Company's credit facilities and future cash flows, estimates of anticipated contract costs and revenues, the timing, amount and success of claims for research credits, the timing and success of software development efforts and resulting costs, acceptance by PG&E of the final version of DCSI's TWACS NG software, the anticipated value of the PG&E contract, timing of closing the Doble acquisition, the outcome of current litigation, claims and charges, recoverability of deferred tax assets, continued reinvestment of foreign earnings, the impact of FIN 48 and SFAS 157, future costs relating to environmental matters, share repurchases, investments, sustained performance improvement, performance improvement initiatives, growth opportunities, new product development, the Company's ability to increase shareholder value, acquisitions, and the beliefs and assumptions of Management contained in the Letter to Our Shareholders (pages 1-2), the Report of the Chief Financial Officer (page 12), and Management's Discussion and Analysis and other statements contained herein which are not strictly historical are considered "forward-looking statements" within the meaning of the safe harbor provisions of the Federal securities laws. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that such statements are only predictions, speak only as of the date of this report, and the Company undertakes no duty to update. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to those described under "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal years ended September 30, 2007 and the following: actions by the California Public Utility Commission; PG&E's Board of Directors or PG&E's management impacting PG&E's AMI projects; the timing and success of DCSI's software development efforts; the timing and content of purchase order releases under the PG&E contracts; and DCSI's and Hexagram's successful performance of the PG&E contracts; satisfaction of closing conditions to the Doble acquisition; the timing and execution of real estate sales; termination for convenience of customer contracts; timing and magnitude of future contract awards; weakening of economic conditions in served markets; the success of the Company's competitors; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties; the availability of selected acquisitions; the timing, pricing and availability of shares offered for sale; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; the successful sale of the Company's Puerto Rico facility; collective bargaining and labor disputes; changes in laws and regulations including but not limited to changes in accounting standards and taxation requirements; costs relating to environmental matters; litigation uncertainty; and the Company's successful execution of internal operating plans.

Consolidated Statements of Operations

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

	2007	2006	2005
Net sales	\$527,537	458,865	429,115
Costs and expenses:			
Cost of sales	349,891	300,309	281,654
Selling, general and administrative expenses	122,502	106,882	84,241
Amortization of intangible assets	10,705	6,872	1,973
Interest income, net	(744)	(1,286)	(1,900)
Other (income) and expenses, net	2,455	(2,814)	(1,550)
Asset impairment	—	—	790
Total costs and expenses	484,809	409,963	365,208
Earnings before income tax	42,728	48,902	63,907
Income tax expense	9,015	17,622	20,363
Net earnings	\$ 33,713	31,280	43,544
Earnings per share:			
Basic:			
Net earnings	\$ 1.30	1.22	1.71
Diluted:			
Net earnings	\$ 1.28	1.19	1.66
Average common shares outstanding (in thousands):			
Basic	25,865	25,718	25,511
Diluted	26,387	26,386	26,306

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(Dollars in thousands)
Years ended September 30,

2007

2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 18,638	36,819
Accounts receivable, less allowance for doubtful accounts of \$638 and \$798 in 2007 and 2006, respectively	102,994	83,816
Costs and estimated earnings on long-term contracts, less progress billings of \$3,881 and \$4,405 in 2007 and 2006, respectively	11,520	1,345
Inventories	67,871	50,984
Current portion of deferred tax assets	25,264	24,251
Other current assets	34,063	10,042
Total current assets	260,350	207,257

Property, plant and equipment:

Land and land improvements	5,543	5,497
Buildings and leasehold improvements	48,767	46,089
Machinery and equipment	101,076	86,312
Construction in progress	5,184	1,444
	160,570	139,342
Less accumulated depreciation and amortization	82,293	70,588
Net property, plant and equipment	78,277	68,754

Goodwill	149,466	143,450
Intangible assets, net	77,242	59,202
Other assets	10,772	10,031
	\$576,107	488,694

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(Dollars in thousands)
Years ended September 30,

2007

2006

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Short-term borrowings and current maturities of long-term debt	\$ 2,844	—
Accounts payable	54,634	39,496
Advance payments on long-term contracts, less costs incurred of \$20,314 and \$19,532 in 2007 and 2006, respectively	3,408	7,367
Accrued salaries	15,114	13,932
Current portion of deferred revenue	25,239	3,569
Accrued other expenses	17,961	11,531
Total current liabilities	119,200	75,895
Long-term portion of deferred revenue	6,411	7,458
Pension obligations	8,029	13,143
Deferred tax liabilities	18,522	3,750
Other liabilities	8,462	12,014
Long-term debt	—	—
Total liabilities	160,624	112,260

Shareholders' equity:

Preferred stock, par value \$.01 per share, authorized 10,000,000 shares	—	—
Common stock, par value \$.01 per share, authorized 50,000,000 shares; Issued 29,159,629 and 29,030,995 shares in 2007 and 2006, respectively	292	290
Additional paid-in capital	243,131	236,390
Retained earnings	226,759	193,046
Accumulated other comprehensive income (loss), net of tax	6,303	(2,070)
	476,485	427,656
Less treasury stock, at cost (3,416,966 and 3,166,026 common shares in 2007 and 2006, respectively)	(61,002)	(51,222)
Total shareholders' equity	415,483	376,434
	\$576,107	488,694

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

(In thousands) Years ended September 30,	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance, September 30, 2004	14,149	\$ 142	221,711	115,963	(3,698)	(26,502)	307,616
Comprehensive income:							
Net earnings	—	—	—	43,544	—	—	43,544
Translation adjustments	—	—	—	—	680	—	680
Minimum pension liability, net of tax of \$1,372	—	—	—	—	(2,548)	—	(2,548)
Comprehensive income							41,676
Stock options and stock compensation plans, net of tax benefit of \$(3,032)							
	222	1	6,606	—	—	53	6,660
Purchases into treasury	—	—	—	—	—	(24,928)	(24,928)
100 percent stock dividend	14,368	144	—	(144)	—	—	—
Balance, September 30, 2005	28,739	287	228,317	159,363	(5,566)	(51,377)	331,024
SAB 108 Cumulative effect adjustment							
	—	—	—	2,403	—	—	2,403
Comprehensive income:							
Net earnings	—	—	—	31,280	—	—	31,280
Translation adjustments	—	—	—	—	1,448	—	1,448
Minimum pension liability, net of tax of \$(1,103)	—	—	—	—	2,048	—	2,048
Comprehensive income							34,776
Stock options and stock compensation plans, net of tax benefit of \$(3,173)							
	292	3	8,073	—	—	155	8,231
Balance, September 30, 2006	29,031	290	236,390	193,046	(2,070)	(51,222)	376,434
Comprehensive income:							
Net earnings	—	—	—	33,713	—	—	33,713
Translation adjustments	—	—	—	—	4,252	—	4,252
Minimum pension liability, net of tax of \$(1,622)	—	—	—	—	3,558	—	3,558
Comprehensive income	—	—	—	—	—	—	41,523
SFAS 158 adjustment, net of tax of \$(358)							
	—	—	—	—	563	—	563
Stock options and stock compensation plans, net of tax benefit of \$(828)							
	129	2	6,741	—	—	227	6,970
Purchases into treasury	—	—	—	—	—	(10,007)	(10,007)
Balance, September 30, 2007	29,160	\$ 292	243,131	226,759	6,303	(61,002)	415,483

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flow

(Dollars in thousands)
Years ended September 30,

	2007	2006	2005
Cash flows from operating activities:			
Net earnings	\$ 33,713	31,280	43,544
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	22,176	17,303	12,184
Stock compensation expense	5,299	4,790	2,649
Changes in operating working capital	(37,663)	1,162	(4,634)
Effect of deferred taxes on tax provision	12,873	3,596	15,221
Pension contributions	—	(1,350)	—
Change in deferred revenue and costs, net	9,339	1,133	396
Other	(474)	712	(804)
Net cash provided by operating activities	45,263	58,626	68,556
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(8,250)	(91,968)	—
Capital expenditures	(19,503)	(9,117)	(8,848)
Additions to capitalized software	(30,094)	(27,977)	(8,342)
Net cash used by investing activities	(57,847)	(129,062)	(17,190)
Cash flows from financing activities:			
Proceeds from long-term debt	—	52,000	—
Principal payments on long-term debt	—	(52,000)	(519)
Net increase in short-term borrowings	2,844	—	—
Purchases of common stock into treasury	(10,007)	—	(24,928)
Excess tax benefit from stock options exercised	73	1,569	—
Proceeds from exercise of stock options	1,843	2,761	3,037
Other	(350)	(1,559)	3,247
Net cash (used) provided by financing activities	(5,597)	2,771	(19,163)
Net (decrease) increase in cash and cash equivalents	(18,181)	(67,665)	32,203
Cash and cash equivalents at beginning of year	36,819	104,484	72,281
Cash and cash equivalents at end of year	\$ 18,638	36,819	104,484
Changes in operating working capital:			
Accounts receivable, net	\$(18,775)	(10,029)	8,910
Costs and estimated earnings on long-term contracts, net	(10,175)	3,047	(1,916)
Inventories	(16,627)	1,822	(4,358)
Other current assets	(11,877)	737	(1,856)
Accounts payable	15,138	7,675	(3,156)
Advance payments on long-term contracts, net	(3,959)	594	2,468
Accrued expenses	8,612	(2,684)	(4,726)
	\$(37,663)	1,162	(4,634)
Supplemental cash flow information:			
Interest paid	\$ 109	456	33
Income taxes paid (including state, foreign & AMT)	3,731	10,768	6,269

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

A. PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of ESCO Technologies Inc. (ESCO) and its wholly owned subsidiaries (the Company). All significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the 2007 presentation.

B. BASIS OF PRESENTATION

Fair values of the Company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. The estimated fair value of each class of financial instruments approximated the related carrying value at September 30, 2007 and 2006.

C. NATURE OF OPERATIONS

The Company has three industry operating units: Communications, Filtration/Fluid Flow (Filtration), and Test. The Communications unit is a proven supplier of special purpose communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. The Filtration unit develops, manufactures and markets a broad range of filtration products used in the purification and processing of liquids and gases. The Test unit is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy.

D. USE OF ESTIMATES

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

E. REVENUE RECOGNITION

Communications Unit: Within the Communications unit, approximately 95% of the unit's revenue arrangements (approximately 35% of consolidated revenues) contain software components. Revenue under these arrangements is recognized in accordance with Statement of Position 97-2 (SOP 97-2), "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." The unit's software revenue arrangements generally include multiple products and services, or "elements" consisting of meter and substation hardware, meter reading system software, program management support during the deployment period and software support (post-contract customer support, "PCS"). These arrangements typically require the Company to deliver software at the inception of the arrangement while the hardware and program management support are delivered over the contractual deployment period. Software support is provided during deployment and subsequent thereto. The software element included in such arrangements is essential to the functionality of the hardware and, therefore, the hardware is considered to be software-related. Hardware is considered a specified element in the software arrangement and vendor-specific objective evidence of fair value ("VSOE") has been established for this element. VSOE for the hardware element is determined based on the price when sold separately to customers. These revenue arrangements are divided into separate units of accounting if the delivered item(s) has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered item(s) and delivery/ performance of the undelivered item(s) is probable. For multiple element arrangements, revenue is allocated to the individual elements based on VSOE of the individual elements.

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

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

In November 2005, DCSI and Hexagram entered into arrangements with a large utility company to provide software, program management services, training and PCS that includes an option for the customer to purchase a significant quantity of hardware over an initial deployment period of approximately five years and subsequently over the remaining initial contract term of up to fifteen years. The software, program management services and training will be delivered over the initial hardware deployment period of approximately five years. PCS will be provided at no charge during the first year of the initial deployment period, after which it will be provided over subsequent annual periods throughout the contract term if the customer chooses to continue PCS. Because the program

Notes to Consolidated Financial Statements

management services are based on a fixed price per month rather than on a time and materials basis, the Company is unable to establish VSOE for the program management services in this arrangement. The Company is able to establish VSOE for the PCS based on contractual renewal rates that are consistent with other arrangements and for the training based on pricing when sold separately. For the DCSI arrangement, the pricing for the optional hardware includes a discount that the Company has determined to be more-than-insignificant. In accordance with applicable software revenue recognition guidance, the Company will defer all revenue related to the DCSI arrangement until all software is delivered and acceptance criteria have been met. At that time, revenue otherwise allocable to the software, program management services, training and initial bundled PCS will be reduced by the rate of the significant incremental discount offered on the hardware products. The portion of the arrangement consideration allocated to the significant incremental discount will be recognized ratably over the discount period (up to twenty years) similar to a subscription. The remaining arrangement consideration will be recognized ratably over the period the program management services will be performed (the initial deployment period of approximately five years). Additional annual fees are payable in each subsequent year that PCS is provided and will be recognized over the respective PCS period. The amount paid by the customer for optional purchases of hardware during the deployment period related to both the DCSI and Hexagram arrangements will be recognized upon delivery and acceptance, if applicable, assuming all other revenue recognition criteria have been met.

Approximately 5% of unit revenues are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers. Products include the SecurVision® digital video surveillance systems.

Filtration Unit: Within the Filtration operating unit, approximately 80% of operating unit revenues (approximately 30% of consolidated revenues) are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers.

Approximately 20% of operating unit revenues (approximately 5% of consolidated revenues) are recorded under the percentage-of-completion provisions of SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Products accounted for under SOP 81-1 include the design, development and manufacture of complex fluid control products, quiet valves, manifolds and systems primarily for the aerospace and military markets. For arrangements that are accounted for under SOP 81-1, the Company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognizes these revenues and costs based on units delivered. The percentage-of-completion method of accounting involves the use of various techniques to estimate expected costs at completion.

Test Unit: Within the Test unit, approximately 50% of revenues (approximately 15% of consolidated revenues) are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers. Certain arrangements contain multiple elements which are accounted for under the provisions of EITF 00-21, "Revenue Arrangements with Multiple Deliverables." The multiple elements generally consist of materials and installation services used in the construction and installation of standard shielded enclosures to measure and contain magnetic and electromagnetic energy. The installation process does not involve changes to the features or capabilities of the equipment and does not require proprietary information about the equipment in order for the installed equipment to perform to specifications. There is objective and reliable evidence of fair value for each of the units of accounting, as a result, the arrangement revenue is allocated to the separate units of accounting based on their relative fair values. Typically, fair value is the price of the deliverable when it is regularly sold on a stand-alone basis.

Approximately 50% of the unit's revenues (approximately 15% of consolidated revenues) are recorded under the percentage-of-completion provisions of SOP 81-1, "Accounting for the Performance of Construction-Type and Certain Production-Type Contracts" due to the complex nature of the enclosures that are designed and produced under these contracts. Products accounted for under SOP 81-1 include the construction and installation of complex test chambers to a buyer's specifications that provide its customers with the ability to measure and contain magnetic, electromagnetic and acoustic energy. As discussed above, for arrangements that are accounted for under SOP 81-1, the Company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognizes these revenues and costs based on either (a) units delivered or (b) contract milestones.

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

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

F. CASH AND CASH EQUIVALENTS

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

G. ACCOUNTS RECEIVABLE

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

Notes to Consolidated Financial Statements

H. COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS

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

I. INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market value. Inventories under long-term contracts reflect accumulated production costs, factory overhead, initial cooling and other related costs less the portion of such costs charged to cost of sales and any unliquidated progress payments. In accordance with industry practice, costs incurred on contracts in progress include amounts relating to programs having production cycles longer than one year, and a portion thereof will not be realized within one year.

J. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed primarily on a straight-line basis over the estimated useful lives of the assets: buildings, 10-40 years; machinery and equipment, 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. GOODWILL AND OTHER LONG-LIVED ASSETS

Goodwill represents the excess of purchase costs over the fair value of net identifiable assets acquired in business acquisitions. The Company accounts for goodwill as required by Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets." Management annually reviews goodwill and other long-lived assets with indefinite useful lives for impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If the Company determines that the carrying value of the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Fair value is measured based on a discounted cash flow method using a discount rate determined by Management to be commensurate with the risk inherent in the Company's current business model. Other intangible assets represent costs allocated to identifiable intangible assets, principally capitalized software, patents, trademarks, and technology rights. See Note 4 regarding goodwill and other intangible assets activity.

L. CAPITALIZED SOFTWARE

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

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

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

N. INCOME TAXES

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

O. RESEARCH AND DEVELOPMENT COSTS

Company-sponsored research and development costs include research and development and bid and proposal efforts related to the Company's products and services. Company-sponsored product

Notes to Consolidated Financial Statements

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

P. FOREIGN CURRENCY TRANSLATION

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

Q. EARNINGS PER SHARE

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

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

(In thousands)	2007	2006	2005
Weighted Average Shares Outstanding — Basic	25,865	25,718	25,511
Dilutive Options and performance- accelerated restricted stock	522	668	795
Adjusted Shares — Diluted	26,387	26,386	26,306

Options to purchase 602,731 shares at prices ranging from \$36.07 - \$54.88 were outstanding during the year ended September 30, 2007, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. Options to purchase 264,430 shares at prices ranging from \$42.99 – \$54.88 were outstanding during the year ended September 30, 2006, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. Options to purchase 34,967 shares at prices ranging from \$35.18 – \$50.26 were outstanding during the year ended September 30, 2005, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in various periods through 2013. Approximately 14,000, 9,000 and 36,000 restricted shares were outstanding but unearned at September 30, 2007, 2006 and 2005, respectively, and, therefore, were not included in the respective years' computations of diluted EPS.

R. SHARE-BASED COMPENSATION

Prior to October 1, 2005, the Company accounted for its stock option plans using the intrinsic value method of accounting provided under APB Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) and related Interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) under which no compensation expense was recognized for stock option grants. Accordingly, share-based compensation for stock options was included as a pro forma disclosure in the financial statement footnotes for periods prior to fiscal 2006.

Effective October 1, 2005, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), "Share-Based Payment," (SFAS 123(R)) using the modified-prospective transition method. Results for prior periods have not been restated.

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

S. COMPREHENSIVE INCOME (LOSS)

SFAS 130, "Reporting Comprehensive Income" requires the Company to report separately the translation adjustments of SFAS 52 defined above, and changes to the minimum pension liability, as components of comprehensive income or loss. Management has chosen to disclose the requirements of this Statement within the Consolidated Statements of Shareholders' Equity.

Accumulated other comprehensive income (loss) as shown on the consolidated balance sheet of \$6.3 million and \$(2.1) million at September 30, 2007 and 2006, respectively, consisted of \$8.8 million and \$4.5 million related to currency translation adjustments; \$(2.5) million and \$(6.6) million related to the minimum pension liability, respectively.

T. DEFERRED REVENUE AND COSTS

Deferred revenue and costs are recorded for products or services that have not been provided but have been invoiced under contractual agreements or paid for by a customer, or when products or services have been provided but the criteria for revenue recognition have not been met. If there is a customer acceptance provision or there is uncertainty about customer acceptance, revenue and costs are deferred until the customer has accepted the product or service. At September 30, 2007, approximately \$12 million of deferred costs are included within other current assets on the consolidated balance sheet.

Notes to Consolidated Financial Statements

Deferred revenue also includes the long-term portion of unearned income related to two intellectual property agreements. The amount is being amortized into income on a straight-line basis over the remaining patent life through 2011. The current portion of approximately \$0.6 million is included in the current portion of deferred revenue on the consolidated balance sheet.

U. NEW ACCOUNTING STANDARDS

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company estimates that the adoption of FIN 48 will result in an increase to the opening balance of retained earnings as of October 1, 2007 in the range of zero to \$5 million for income tax benefits not previously recognized.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which amends SFAS 87 and SFAS 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects. The measurement date — the date at which the benefit obligation and plan assets are measured — is required to be the Company's fiscal year-end, which is the date the Company currently uses. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006. The Company adopted the provisions of SFAS 158 as of September 30, 2007 and recorded a pre-tax credit of \$0.9 million to accumulated other comprehensive income in equity.

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

2. Acquisitions

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

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

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

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

Notes to Consolidated Financial Statements

from the date of acquisition. Pro forma financial information related to the Hexagram and Nexus acquisitions was not presented as it was not significant to the Company's results of operations. None of the goodwill recorded as part of the Nexus or Hexagram acquisitions is expected to be deductible for U.S. Federal or state income tax purposes.

3. Asset Impairment

In June 2005, the Company abandoned its plans to commercialize certain sensor products within the Filtration segment resulting in an asset impairment charge of \$0.8 million to write off certain patents and a related licensing agreement.

4. Goodwill and Other Intangible Assets

Included on the Company's Consolidated Balance Sheets at September 30, 2007 and 2006 are the following intangible assets gross carrying amounts and accumulated amortization:

(Dollars in millions)	2007	2006
Goodwill:		
Gross carrying amount	\$ 158.4	152.4
Less: accumulated amortization	8.9	8.9
Net	\$ 149.5	143.5
Intangible assets with determinable lives:		
Patents		
Gross carrying amount	\$ 17.9	17.6
Less: accumulated amortization	14.7	13.9
Net	\$ 3.2	3.7
Capitalized software		
Gross carrying amount	\$ 83.4	55.2
Less: accumulated amortization	17.7	10.0
Net	\$ 65.7	45.2
Other		
Gross carrying amount	\$ 9.9	9.5
Less: accumulated amortization	5.1	2.8
Net	\$ 4.8	6.7
Intangible assets with indeterminable lives:		
Trademarks	\$ 3.5	3.5

The Company performed its annual evaluation of goodwill and intangible assets for impairment during the fourth quarter of fiscal 2007 and concluded no impairment existed at September 30, 2007.

The changes in the carrying amount of goodwill attributable to each business segment for the years ended September 30, 2007 and 2006 are as follows:

(Dollars in millions)	Communications	Filtration	Test
Balance as of September 30, 2005	\$ —	39.8	29.1
Acquisitions			
(Hexagram and Nexus)	74.6	—	—
Balance as of September 30, 2006	74.6	39.8	29.1
Acquisitions	0.8	5.2	—
Balance as of September 30, 2007	\$ 75.4	45.0	29.1

Amortization expense related to intangible assets with determinable lives was \$10.7 million, \$6.9 million and \$2.0 million in 2007, 2006 and 2005, respectively. The increase in amortization expense in 2007 as compared to the prior year was due to the Company's TWACS NG software. The Company recorded \$6.2 million and \$2.2 million of amortization expense related to DCSI's TWACS NG software in 2007 and 2006, respectively. Patents are amortized over the life of the patents, generally 17 years. Capitalized software is amortized over the estimated useful life of the software, generally three to seven years. Estimated intangible assets amortization for fiscal year 2008 is approximately \$14 million. Intangible asset amortization for fiscal years 2009 through 2012 is estimated at approximately \$16 million to \$19 million per year. The increase in intangible asset amortization is related to the additional costs associated with the TWACS NG software.

5. Accounts Receivable

Accounts receivable, net of the allowance for doubtful accounts, consist of the following at September 30, 2007 and 2006:

(Dollars in thousands)	2007	2006
Commercial	\$ 97,714	81,986
U.S. Government and prime contractors	5,280	1,830
Total	\$ 102,994	83,816

6. Inventories

Inventories consist of the following at September 30, 2007 and 2006:

(Dollars in thousands)	2007	2006
Finished goods	\$ 22,211	12,834
Work in process — including long-term contracts	17,660	13,211
Raw materials	28,000	24,939
Total	\$ 67,871	50,984

Notes to Consolidated Financial Statements

7. Property, Plant and Equipment

Depreciation expense of property, plant and equipment for the years ended September 30, 2007, 2006 and 2005 was \$11.5 million, \$10.4 million and \$10.1 million, respectively.

The Company leases certain real property, equipment and machinery under noncancelable operating leases. Rental expense under these operating leases for the years ended September 30, 2007, 2006 and 2005 was \$7.8 million, \$7.3 million and \$6.3 million, respectively. Future aggregate minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2007 are:

(Dollars in thousands)
Years ending September 30:

2008	\$ 6,639
2009	5,428
2010	4,238
2011	3,516
2012 and thereafter	6,619
Total	\$26,440

8. Income Tax Expense

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

(Dollars in thousands)	2007	2006	2005
United States	\$ 37,051	43,920	52,543
Foreign	5,677	4,982	11,364
Total income before income taxes	\$ 42,728	48,902	63,907

The principal components of income tax expense from continuing operations for the years ended September 30, 2007, 2006 and 2005 consist of:

(Dollars in thousands)	2007	2006	2005
Federal			
Current (including Alternative Minimum Tax)	\$ (6,419)	3,571	874
Deferred	11,473	10,291	15,313
State and local:			
Current	1,051	2,673	2,414
Deferred	2,066	(518)	(21)
Foreign:			
Current	1,510	1,213	1,854
Deferred	(666)	392	(71)
Total	\$ 9,015	17,622	20,363

The actual income tax expense from continuing operations for the years ended September 30, 2007, 2006 and 2005 differs from the expected tax expense for those years (computed by applying the U.S. Federal corporate statutory rate) as follows:

	2007	2006	2005
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local, net of Federal benefits	2.8	2.4	2.4
Foreign — Puerto Rico	(0.6)	0.5	(4.6)
Foreign — Other	(2.1)	(0.5)	(1.6)
Foreign earnings repatriation	—	4.8	—
Research credit	(10.3)	(5.0)	—
SFAS 123(R)	3.8	1.4	—
Change in tax contingencies	(5.3)	(2.9)	—
Release of valuation allowance	(1.8)	—	—
Other, net	(0.4)	0.3	0.7
Effective income tax rate	21.1%	36.0%	31.9%

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

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 2007 and 2006 are presented below.

(Dollars in thousands)	2007	2006
Deferred tax assets:		
Inventories, long-term contract accounting, contract cost reserves and others	\$ 3,828	1,858
Pension and other postretirement benefits	3,339	5,449
Net operating loss carryforward — domestic	12,311	5,103
Net operating loss carryforward — foreign	3,092	2,895
Alternative Minimum Tax credit carryforward	779	3,306
Capital loss carryforward	7,888	7,381
Other compensation-related costs and other cost accruals	11,285	15,178
Research credit carryforward	13,979	6,635
Total deferred tax assets	56,501	47,805

Deferred tax liabilities:		
Plant and equipment, depreciation methods, acquisition asset allocations, and other	(38,780)	(17,028)
Net deferred tax asset before valuation allowance	17,721	30,777
Less valuation allowance	(10,979)	(10,276)
Net deferred tax assets	\$ 6,742	20,501

Notes to Consolidated Financial Statements

Management believes that, based on the Company's historical pretax income, together with the projection of future taxable income, and after consideration of the valuation allowance, it is more likely than not that the Company will realize the benefits of the net deferred tax assets existing at September 30, 2007. In order to realize this net deferred tax asset, the Company will need to generate future taxable income of approximately \$19 million. At September 30, 2007, the Company had an available net operating loss (NOL) for U.S. Federal tax purposes of approximately \$35 million. This NOL will expire between 2019 and 2025 and will be available to reduce future Federal income tax cash payments. The Company anticipates being able to utilize the NOL carryforward to reduce future Federal income tax cash payments.

The Company has established a valuation allowance of \$7.9 million against the capital loss carryforward generated in 2004, as such loss carryforward may not be realized in future periods. In addition, the Company has established a valuation allowance against certain NOL carryforwards in foreign jurisdictions which may not be realized in future periods. The valuation allowance established against the foreign NOL carryforwards was \$3.1 million and \$2.9 million at September 30, 2007 and 2006, respectively. The Company classifies its valuation allowance related to deferred taxes on a pro rata basis.

The Company completed its analysis of available research credits for fiscal years 2000 through 2006 and recorded total research credit claims, net, of \$5.6 million. The Company expects the net research credits related to fiscal year 2007 to be approximately \$1.4 million. The expiration of the research credits is between 2020 and 2027. The Company anticipates being able to utilize the research credits to reduce future Federal and state income tax cash payments.

No deferred taxes have been provided on the accumulated unremitted earnings of the Company's foreign subsidiaries as of September 30, 2007. The Company's intention is to reinvest these earnings indefinitely. In the event these foreign entities' earnings were distributed, it is estimated that U.S. taxes, net of available foreign tax credits, of approximately \$3.2 million would be due, which would correspondingly reduce the Company's net earnings.

On October 22, 2004, the American Jobs Creation Act (the "AJCA") was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. In 2006, the Company recognized a charge of \$2.4 million for the accrual of income taxes associated with the repatriation under the AJCA of approximately \$39.5 million of foreign earnings.

During 2006, the Company adopted the provisions of SEC Staff Accounting Bulletin No. 108 and recorded \$2.4 million as a cumulative state tax expense adjustment to 2006 beginning retained earnings.

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. These audits can involve complex issues which may require an extended period of time to resolve. The Company regularly reviews its potential tax liabilities for tax years subject to audit. Changes in the Company's potential tax liability occurred during the year ended September 30, 2007, and may occur in the future as the Company's assessment changes based on examinations in various jurisdictions and/or changes in tax laws, regulations and case law. Accordingly, the Company's estimate of income tax liabilities may differ from actual payments or assessments.

9. Debt

At September 30, 2007 and 2006, there were \$2.8 million and zero outstanding borrowings under the revolving credit facility, respectively. Effective October 6, 2004, the Company entered into a \$100 million five-year revolving bank credit facility with a \$50 million increase option that has a final maturity and expiration date of October 6, 2009. The credit facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of six banks, led by Wells Fargo Bank as agent. At September 30, 2007, the Company had approximately \$96.4 million available to borrow under the credit facility in addition to \$18.6 million cash on hand. At September 30, 2007, the Company had outstanding letters of credit of \$3.6 million (\$0.8 million outstanding under the credit facility).

The credit facility requires, as determined by certain financial ratios, a commitment fee ranging from 17.5 to 27.5 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the London Interbank Offered Rate (LIBOR) or based on the prime rate, at the Company's election. The facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility include limitations on leverage, minimum consolidated EBITDA and minimum net worth.

During 2007 and 2006, the maximum aggregate short-term borrowings at any month-end were \$9 million and \$47 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were \$1.7 million and \$3.9 million, respectively; and the weighted average interest rates were 6.24%, 5.25%, and not applicable in 2005. The letters of credit issued and outstanding under the credit facility totaled \$0.8 million and \$0.8 million at September 30, 2007, and 2006, respectively.

Subsequent to September 30, 2007, the Company announced its intention to enter into a new credit facility led by National City Bank in connection with the acquisition of Doble Engineering Company. See further discussion in Note 16 "Subsequent Events" in the Notes to the Consolidated Financial Statements.

Notes to Consolidated Financial Statements

10. Capital Stock

The 29,159,629 and 29,030,995 common shares as presented in the accompanying Consolidated Balance Sheets at September 30, 2007 and 2006 represent the actual number of shares issued at the respective dates. The Company held 3,416,966 and 3,166,026 common shares in treasury at September 30, 2007 and 2006, respectively.

In August 2006, the Company's Board of Directors authorized an open market common stock repurchase program for up to 1.2 million shares, subject to market conditions and other factors which covers the period through September 30, 2008. The Company repurchased 265,000 shares during 2007 under this program. There were no stock repurchases during 2006. The Company repurchased 670,072 shares in 2005 under a previously authorized program.

11. Share-Based Compensation

The Company provides compensation benefits to certain key employees under several share-based plans providing for employee stock options and/or performance-accelerated restricted shares (restricted shares), and to non-employee directors under a non-employee directors compensation plan. During fiscal 2004, the Board of Directors authorized and the shareholders approved, the 2004 Incentive Compensation Plan, which states, in part, that on February 5, 2004, there shall be 2,000,000 shares added to the authorized shares allocated for the grant of stock options, stock appreciation rights, performance-accelerated restricted stock, or other full value awards. Of these, shares up to 600,000 may be utilized for performance-accelerated restricted stock or other full value awards. At September 30, 2007, the maximum number of full value shares available for issue under the 2004 Incentive Compensation Plan and the 2001 Stock Incentive Plan was 600,000 and 270,502 shares, respectively.

Stock Option Plans

The Company's stock option awards are generally subject to graded vesting over a three-year service period. All outstanding options were granted at prices equal to fair market value at the date of grant. The options granted prior to September 30, 2003 have a ten-year contractual life from date of issuance, expiring in various periods through 2013. Beginning in fiscal 2004, the options granted have a five-year contractual life from date of issuance. Beginning with fiscal 2006 awards, the Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award. Prior to fiscal 2006, the Company calculated the pro forma compensation cost using the graded vesting method.

The fair value of each option award is estimated as of the date of grant using a Black-Scholes option pricing model. The weighted average assumptions for the periods indicated are noted below. Expected volatility is based on historical volatility of ESCO's stock calculated over the expected term of the option. The expected term was calculated in accordance with Staff Accounting Bulletin No. 107 using the simplified method for "plain-vanilla" options. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2007, 2006 and 2005, respectively: expected dividend yield of 0% in all periods; expected volatility of 27.3%, 28.0% and 23.5%; risk-free interest rate of 4.6%, 4.6% and 3.9%; and expected term of 3.50 years, 3.50 years and 3.58 years.

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

	FY2007		FY2006		FY2005	
	Shares	Estimated Weighted Avg. Price	Shares	Estimated Weighted Avg. Price	Shares	Estimated Weighted Avg. Price
October 1	1,387,348	\$ 26.60	1,324,548	\$ 20.48	1,356,094	\$ 13.63
Granted	296,280	\$ 45.71	328,080	\$ 44.63	376,200	\$ 35.55
Exercised	(101,683)	\$ 21.56	(232,371)	\$ 15.95	(388,340)	\$ 10.94
Cancelled	(23,004)	\$ 40.59	(32,909)	\$ 35.77	(19,406)	\$ 24.96
September 30,	1,558,941	\$ 30.35	1,387,348	\$ 26.60	1,324,548	\$ 20.48
At September 30,						
Reserved for future grant	878,238		1,146,741		1,428,032	
Exercisable	951,066	\$ 21.99	753,415	\$ 16.46	755,612	\$ 12.29

Notes to Consolidated Financial Statements

The aggregate intrinsic value of options exercised during 2007, 2006 and 2005 was \$2.4 million, \$7.9 million and \$12.4 million, respectively. The aggregate intrinsic value of stock options outstanding and exercisable at September 30, 2007 was \$12.3 million. The weighted-average contractual life of stock options outstanding at September 30, 2007 was 3.0 years. The weighted-average fair value of stock options granted in 2007, 2006, and 2005 was \$12.25, \$12.17, and \$11.28, respectively.

Summary information regarding stock options outstanding at September 30, 2007 is presented below:

Range of Exercise Prices	Options Outstanding		
	Number Outstanding at Sept. 30, 2007	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 5.39 - \$10.72	201,426	2.0 years	\$ 7.19
\$12.64 - \$14.52	268,486	4.5 years	\$ 13.76
\$17.29 - \$32.32	186,455	1.7 years	\$ 23.51
\$35.18 - \$42.10	303,630	2.0 years	\$ 35.31
\$42.99 - \$54.88	598,944	3.6 years	\$ 45.20
	1,558,941	3.0 years	\$ 30.35

Range of Exercise Prices	Exercisable Options Outstanding		
	Number Exercisable at Sept. 30, 2007		Weighted Average Exercise Price
\$ 5.39 - \$10.72	201,426		\$ 7.19
\$12.64 - \$14.52	268,486		\$ 13.76
\$17.29 - \$32.32	186,455		\$ 23.51
\$35.18 - \$54.88	294,699		\$ 38.64
	951,066		\$ 21.99

Performance-accelerated Restricted Share Awards

The performance-accelerated restricted shares (restricted shares) vest over five years with accelerated vesting if certain performance targets are achieved. In these cases, if it is probable that the performance condition will be met, the Company recognizes compensation cost on a straight-line basis over the shorter performance period; otherwise, it will recognize compensation cost over the longer service period. Compensation cost for the majority of the outstanding restricted share awards is being recognized over the longer performance period as it is not probable the performance condition will be met. The restricted share award grants were valued at the stock price on the date of grant. Pre-tax compensation expense related to the restricted share awards was \$1.5 million, \$1.5 million and \$1.9 million for fiscal years ended September 30, 2007, 2006 and 2005, respectively.

The following summary presents information regarding outstanding restricted share awards as of September 30, 2007 and changes during the period then ended:

	Shares	Weighted Avg. Price
Nonvested at October 1, 2006	155,730	\$ 34.33
Granted	63,530	\$ 45.75
Vested	(51,200)	\$ 24.60
Cancelled	(4,000)	\$ 34.80
Nonvested at September 30, 2007	164,060	\$ 41.77

Non-Employee Directors Plan

The non-employee directors compensation plan provides to each non-employee director a retainer of 800 common shares per quarter. Compensation expense related to the non-employee director grants was \$0.8 million, \$1.0 million and \$0.7 million for the years ended September 30, 2007, 2006 and 2005, respectively.

The total share-based compensation cost that has been recognized in results of operations and included within SG&A was \$5.3 million, \$4.8 million and \$2.6 million for the years ended September 30, 2007, 2006 and 2005, respectively. The total income tax benefit recognized in results of operations for share-based compensation arrangements was \$1.2 million, \$1.2 million and \$1.0 million for the years ended September 30, 2007, 2006 and 2005, respectively. The Company has elected to use tax law ordering rules when calculating the income tax benefit associated with its share-based payment arrangements. In addition, the Company elected to use the simplified method of calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R)-3, "Transition Election related to Accounting for the Tax Effects of Share-Based Payment Awards." As of September 30, 2007, there was \$10.2 million of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 3.0 years.

Notes to Consolidated Financial Statements

Pro Forma Net Earnings

The following table provides pro forma net earnings and earnings per share had the Company applied the fair value method of SFAS 123 for the year ended September 30, 2005:

Pro forma (Unaudited) (Dollars in thousands, except per share amounts)	2005
Net earnings, as reported	\$43,544
Add: stock-based employee compensation expense included in reported net earnings, net of tax	1,165
Less: total stock-based employee compensation expense determined under fair value based methods, net of tax	(3,476)
Pro forma net earnings	\$41,233
Net earnings per share:	
Basic — as reported	\$ 1.71
Basic — pro forma	1.62
Diluted — as reported	1.66
Diluted — pro forma	1.57

12. Retirement and Other Benefit Plans

Substantially all domestic employees are covered by the defined contribution pension plan maintained by the Company. Effective December 31, 2003, the Company's defined benefit plan was frozen and no additional benefits will be accrued after that date. As a result, the accumulated benefit obligation and projected benefit obligation are equal. These frozen retirement income benefits are provided to employees under defined benefit pay-related and flat-dollar plans, which are noncontributory. The annual contributions to retirement plans equal or exceed the minimum funding requirements of the Employee Retirement Income Security Act or applicable local regulations. In addition to providing retirement income benefits, the Company provides unfunded postretirement health and life insurance benefits to certain retirees. To qualify, an employee must retire at age 55 or later and the employee's age plus service must equal or exceed 75. Retiree contributions are defined as a percentage of medical premiums. Consequently, retiree contributions increase with increases in the medical premiums. The life insurance plans are noncontributory and provide coverage of a flat dollar amount for qualifying retired employees. Effective December 31, 2004, no new retirees are eligible for life insurance benefits.

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

The Company uses a measurement date of September 30 for its pension and other postretirement benefit plans. The Company has an accrued benefit liability of \$0.7 million and \$1.8 million at September 30, 2007 and 2006, respectively, related to its other postretirement benefit obligations. All other information related to its postretirement benefit plans is not considered material to the Company's results of operations or financial condition.

The following tables provide a reconciliation of the changes in the pension plans and fair value of assets over the two-year period ended September 30, 2007, and a statement of the funded status as of September 30, 2007 and 2006:

(Dollars in millions)	Pension Benefits	
	2007	2006
Reconciliation of benefit obligation		
Net benefit obligation at beginning of year	\$ 48.2	50.2
Service cost	—	—
Interest cost	2.7	2.6
Actuarial (gain) loss	(2.9)	(2.9)
Plan amendments	—	0.1
Gross benefits paid	(1.8)	(1.8)
Net benefit obligation at end of year	\$ 46.2	48.2

(Dollars in millions)	Pension Benefits	
	2007	2006
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 35.1	32.7
Actual return on plan assets	4.7	2.6
Employer contributions	0.2	1.6
Gross benefits paid	(1.8)	(1.8)
Fair value of plan assets at end of year	\$ 38.2	35.1

Notes to Consolidated Financial Statements

	Pension Benefits	
	2007	2006
(Dollars in millions)		
Funded Status		
Funded status at end of year	\$ (8.0)	(13.1)
Unrecognized prior service cost	—	0.1
Unrecognized net actuarial (gain) loss	—	10.1
Accrued benefit cost	(8.0)	(2.9)
Amounts recognized in the Balance Sheet consist of:		
Current liability	(0.2)	—
Noncurrent liability	(7.8)	—
Accrued benefit cost	—	(2.9)
Additional minimum liability	—	(10.3)
Intangible asset	—	0.1
Accumulated other comprehensive income (before tax effect)	—	10.2
Accrued benefit liability	(8.0)	(2.9)
Amounts recognized in Accumulated Other Comprehensive Income consist of:		
Net actuarial loss	5.0	—
Prior service cost	0.1	—
Accumulated Other Comprehensive Income	\$ 5.1	—

The following table provides the components of net periodic benefit cost for the plans for the years ended September 30, 2007, 2006 and 2005:

	Pension Benefits		
	2007	2006	2005
(Dollars in millions)			
Service cost	\$ —	—	—
Interest cost	2.7	2.6	2.6
Expected return on plan assets	(2.8)	(2.7)	(2.9)
Net actuarial (gain) loss	0.4	0.4	0.2
Net periodic benefit cost	0.3	0.3	(0.1)
Defined contribution plans	3.6	2.9	2.4
Total	\$ 3.9	3.2	2.3

The discount rate used in measuring the Company's pension obligations was developed by matching yields of actual high-quality corporate bonds to expected future pension plan cash flows (benefit payments). Over 500 Aa-rated, non-callable bonds with a wide range of maturities were used in the analysis. After using the bond yields to determine the present value of the plan cash flows, a single representative rate that resulted in the same present value was developed. The expected long-term rate of return on plan assets assumption was determined by reviewing the actual investment return of the plans since inception and evaluating those returns in relation to expectations of various investment organizations to determine whether long-term future returns are expected to differ significantly from the past.

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

	2007	2006	2005
Discount rate	5.75%	5.25%	6.00%
Rate of increase in compensation levels	N/A	N/A	N/A
Expected long-term rate of return on assets	8.25%	8.25%	8.25%

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

	2007	2006
Discount rate	6.25%	5.75%
Rate of increase in compensation levels	N/A	N/A

The assumed rate of increase in compensation levels is not applicable in 2007, 2006 and 2005 as the plan was frozen as of December 31, 2003.

The asset allocation for the Company's pension plans at the end of 2007 and 2006, the Company's acceptable range and the target allocation for 2008, by asset category, follows:

Asset Category	Target Allocation 2008	Acceptable Range	Percentage of Plan Assets at Year-end	
			2007	2006
Equity securities	60%	50-70%	69%	66%
Fixed income	40%	30-50%	29%	32%
Cash/cash equivalents	0%	0-5%	2%	2%

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

Notes to Consolidated Financial Statements

EXPECTED CASH FLOWS

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

(Dollars in millions)	Pension Benefits	Other Benefits
Expected Employer Contributions — 2008	\$ 0.2	0.1
Expected Benefit Payments		
2008	2.4	0.1
2009	2.5	0.1
2010	2.6	0.1
2011	2.7	0.1
2012-2016	\$ 15.0	0.3

13. Other Financial Data

Items charged to operations during the years ended September 30, 2007, 2006 and 2005 included the following:

(Dollars in thousands)	2007	2006	2005
Salaries and wages (including fringes)	\$ 137,999	119,286	100,372
Maintenance and repairs	5,545	4,719	3,897
Research and development (R&D) costs:			
Company-sponsored	\$ 25,357	20,043	16,829
Customer-sponsored	7,618	6,323	5,687
Total R&D	\$ 32,975	26,366	22,516
Other engineering costs	9,082	9,069	7,763
Total R&D and other engineering costs	\$ 42,057	35,435	30,279
As a % of net sales	8.0%	7.7%	7.1%

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

A reconciliation of the changes in accrued product warranty liability for the years ended September 30, 2007, 2006, and 2005 is as follows:

(Dollars in thousands)	2007	2006	2005
Balance as of October 1	\$ 1,422	1,487	2,147
Additions charged to expense	1,771	2,357	1,108
Deductions	(1,732)	(2,422)	(1,768)
Balance as of September 30	\$ 1,461	1,422	1,487

14. Business Segment Information

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company has three reporting units: Communications, Filtration and Test. The Communications unit is a proven supplier of special purpose fixed network communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. DCSI's Two-Way Automatic Communications System, known as TWACS®, is currently used for automatic meter reading (AMR) and related advanced metering infrastructure (AMI) functions serving over 200 utilities, as well as having load management capabilities. Hexagram's STAR® system, the premier wireless AMI system, delivers two-way and one-way operation on secure licensed radio frequencies for more than 100 utilities serving electric, gas and water customers. Nexus provides best-in-class utility data management solutions to more than 85 leading energy companies that add value to existing billing and metering infrastructure to allow both the utilities and their customers to better manage energy-driven transactions and decision making. Comtrak's SecurVision® product line provides digital video surveillance and security functions for large commercial enterprises and alarm monitoring companies. The Filtration unit's primary operations consist of: PTI Technologies Inc. (PTI), VACCO Industries (VACCO) and the Filtertek companies (Filtertek). PTI and VACCO develop and manufacture a wide range of filtration products and are leading suppliers of filters to the commercial and defense aerospace, satellite and industrial markets. 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. Each of the components of the Filtration segment is presented separately due to differing long-term economics. Test segment operations represent the EMC Group, consisting primarily of ETS-Lindgren L.P. (ETS) and Lindgren R.F. Enclosures, Inc. (Lindgren). The EMC Group is principally involved in the design and manufacture of EMC test equipment, test chambers, and electromagnetic absorption materials. The EMC Group also manufactures radio frequency (RF) shielding products and components used by manufacturers of medical equipment, communications systems, electronic products, and shielded rooms for high security data processing and secure communication. Accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to the Consolidated Financial Statements.

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

Notes to Consolidated Financial Statements

NET SALES

(Dollars in millions)

Year ended September 30,

	2007	2006	2005
Communications	\$ 197.6	156.2	138.0
PTI	52.7	46.4	40.7
VACCO	37.2	32.3	38.9
Filtratek	98.5	95.4	92.1
Filtration subtotal	188.4	174.1	171.7
Test	141.5	128.6	119.4
Consolidated totals	\$ 527.5	458.9	429.1

No customers exceeded 10% of net sales in the periods presented.

EBIT

(Dollars in millions)

Year ended September 30,

	2007	2006	2005
Communications	\$ 22.0	28.3	38.8
PTI	9.4	6.6	3.8
VACCO	7.8	6.1	10.4
Filtratek	6.2	6.8	8.2
Filtration subtotal	23.4	19.5	22.4
Test	14.4	15.0	12.2
Reconciliation to consolidated totals (Corporate)	(17.8)	(15.2)	(11.4)
Consolidated EBIT	42.0	47.6	62.0
Add: interest income	0.7	1.3	1.9
Earnings before income tax	\$ 42.7	48.9	63.9

IDENTIFIABLE ASSETS

(Dollars in millions)

Year ended September 30,

	2007	2006	2005
Communications	\$ 151.6	97.9	52.4
PTI	32.5	32.0	36.7
VACCO	16.8	15.7	19.7
Filtratek	68.6	62.9	91.5
Filtration subtotal	117.9	110.6	147.9
Test	72.0	50.3	80.7
Reconciliation to consolidated totals (Corporate assets)	234.6	229.9	142.8
Consolidated totals	\$ 576.1	488.7	423.8

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

CAPITAL EXPENDITURES

(Dollars in millions)

Year ended September 30,

	2007	2006	2005
Communications	\$ 7.0	3.4	1.9
PTI	0.4	0.2	1.0
VACCO	0.6	1.0	0.7
Filtratek	7.4	3.8	4.0
Filtration subtotal	8.4	5.0	5.7
Test	4.0	0.7	1.2
Corporate	0.1	—	—
Consolidated totals	\$ 19.5	9.1	8.8

DEPRECIATION AND AMORTIZATION

(Dollars in millions)

Year ended September 30,

	2007	2006	2005
Communications	\$ 10.3	5.0	2.0
PTI	1.4	1.5	1.5
VACCO	0.8	0.7	0.7
Filtratek	6.2	6.0	6.2
Filtration subtotal	8.4	8.2	8.4
Test	1.3	1.3	1.4
Reconciliation to consolidated totals (Corporate)	2.2	2.8	0.4
Consolidated totals	\$ 22.2	17.3	12.2

GEOGRAPHIC INFORMATION

Net sales

(Dollars in millions)

Year ended September 30,

	2007	2006	2005
United States	\$ 406.3	355.9	325.3

Europe	45.9	40.2	56.0
Far East	38.0	36.1	29.6
Other	37.3	26.7	18.2
Consolidated totals	\$ 527.5	458.9	429.1

Long-lived assets

(Dollars in millions)

Year ended September 30,	2007	2006	2005
United States	\$ 54.6	51.3	50.3
Europe	14.0	10.6	10.9
Other	9.7	6.9	6.0
Consolidated totals	\$ 78.3	68.8	67.2

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

Notes to Consolidated Financial Statements

15. Commitments and Contingencies

At September 30, 2007, the Company had \$3.6 million in letters of credit outstanding as guarantees of contract performance. As a normal incidence of the businesses in which the Company is engaged, various claims, charges and litigation are asserted or commenced against the Company. With respect to claims and litigation asserted or commenced against the Company, it is the opinion of Management, that final judgments, if any, which might be rendered against the Company are adequately reserved, covered by insurance, or are not likely to have a material adverse effect on its financial condition or results of operation.

16. Subsequent Events

On November 7, 2007, the Company announced an agreement to acquire the stock of Doble Engineering Company, headquartered in Watertown, Massachusetts, for \$319 million in cash, subject to adjustment for differences in working capital and cash on hand at closing. The Company intends to fund the acquisition by a combination of existing cash and borrowings under a new credit facility led by National City Bank. The transaction is expected to close in the quarter ending December 31, 2007.

On November 26, 2007, the Company announced it had completed the sale of the filtration portion of Filtertek Inc. to Illinois Tool Works Inc. (ITW) for approximately \$77.5 million in cash, subject to closing working capital adjustments. The Tek Packaging division of Filtertek is not included in the transaction. The net cash proceeds from the sale, estimated at \$70 million after taxes and expenses, will be used to pay down a portion of the debt associated with the Doble Engineering Company acquisition, mentioned above. The Company expects to record a gain on the sale for both financial reporting and tax purposes, with a portion of the tax gain being shielded from cash payments through the utilization of the Company's existing capital loss carryforward which was generated from prior divestitures. As discussed in Note 8 to the Consolidated Financial Statements, there is a valuation allowance established against the capital loss carryforward as of September 30, 2007.

17. Quarterly Financial Information (Unaudited)

(Dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2007					
Net sales	\$98,813	129,068	137,523	162,133	527,537
Net earnings (loss)	(1,381)	9,618	8,854	16,622	33,713
<i>Basic earnings (loss) per share:</i>					
Net earnings (loss)	(.05)	.37	.34	.65	1.30
<i>Diluted earnings (loss) per share:</i>					
Net earnings (loss)	\$ (.05)	.36	.33	.64	1.28
2006					
Net sales	\$90,586	122,884	123,626	121,769	458,865
Net earnings	2,204	7,343	11,163	10,570	31,280
<i>Basic earnings per share:</i>					
Net earnings	.09	.29	.43	.41	1.22
<i>Diluted earnings per share:</i>					
Net earnings	\$.08	.28	.42	.40	1.19

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

Management's Statement of Financial Responsibility

The Company's Management is responsible for the fair presentation of the Company's financial statements in accordance with accounting principles generally accepted in the United States of America, and for their integrity and accuracy. Management is confident that its financial and business processes provide accurate information on a timely basis.

Management, with the oversight of ESCO's Board of Directors, has established and maintains a strong ethical climate in which the Company's affairs are conducted. Management also has established an effective system of internal controls that provide reasonable assurance as to the integrity and accuracy of the financial statements, and responsibility for the Company's assets. KPMG LLP, the Company's independent accountants, reports directly to the Audit and Finance Committee of the Board of Directors. The Audit and Finance Committee has established policies consistent with newly enacted corporate reform laws for auditor independence. In accordance with corporate governance listing requirements of the New York Stock Exchange:

- 4 A majority of Board members are independent of the Company and its Management.
- 4 All members of the key Board committees — the Audit and Finance, the Human Resources and Compensation and the Nominating and Corporate Governance Committees — are independent.
- 4 The independent members of the Board meet regularly without the presence of Management.
- 4 The Company has a clear code of ethics and a conflict of interest policy to ensure that key corporate decisions are made by individuals who do not have a financial interest in the outcome, separate from their interest as Company officials.
- 4 The charters of the Board committees clearly establish their respective roles and responsibilities.
- 4 The Company has an ethics officer and an ombudsman hot line available to all domestic employees and all foreign employees have local ethics officers and access to the Company's ombudsman.

The Company has a strong financial team, from its executive leadership to each of its individual contributors. Management monitors compliance with its financial policies and practices over critical areas including internal controls, financial accounting and reporting, accountability, and safeguarding of its corporate assets. The internal audit control function maintains oversight over the key areas of the business and financial processes and controls, and reports directly to the Audit and Finance Committee. Additionally, all employees are required to adhere to the ESCO Code of Business Conduct and Ethics, which is monitored by the ethics officer.

Management is dedicated to ensuring that the standards of financial accounting and reporting that are established are maintained. The Company's culture demands integrity and a commitment to strong internal practices and policies.

The Consolidated Financial Statements have been audited by KPMG LLP, whose report is included herein.



Victor L. Richey
Chairman, Chief Executive Officer,
and President



Gary E. Muenster
Senior Vice President
and Chief Financial Officer

Management's Report on Internal Control Over Financial Reporting

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2007 using criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company maintained effective internal control over financial reporting as of September 30, 2007 based on these criteria.

Our internal control over financial reporting as of September 30, 2007, as well as our assessment of the effectiveness of our internal control over financial reporting as of September 30, 2007, have been audited by KPMG LLP, an independent registered public accounting firm, as stated in the report which is included herein.



Victor L. Richey
Chairman, Chief Executive Officer,
and President



Gary E. Muenster
Senior Vice President
and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
ESCO Technologies Inc.:

We have audited the accompanying consolidated balance sheets of ESCO Technologies Inc. and subsidiaries (the Company) as of September 30, 2007 and 2006, 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, 2007. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 previously present fairly, in all material respects, the financial position of ESCO Technologies Inc. and subsidiaries as of September 30, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 12 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2007. Additionally, as discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective October 1, 2005 and, as discussed in Note 8 to the consolidated financial statements, the Company changed its method of quantifying errors in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ESCO Technologies Inc.'s internal control over financial reporting as of September 30, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 29, 2007, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

St. Louis, Missouri
November 29, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
ESCO Technologies Inc.:

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

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards required that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that ESCO Technologies Inc. maintained effective internal control over financial reporting as of September 30, 2007, is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework* issued by COSO. Also, in our opinion, ESCO Technologies Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ESCO Technologies Inc. and subsidiaries as of September 30, 2007 and 2006, 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, 2007, and our report dated November 29, 2007, expressed an un-qualified opinion on those consolidated financial statements.

KPMG LLP

St. Louis, Missouri
November 29, 2007

Five-Year Financial Summary

(Dollars in millions, except per share amounts)

	2007	2006	2005	2004	2003
For years ended September 30:					
Net sales	\$ 527.5	458.9	429.1	422.1	396.7
Net earnings from continuing operations	33.7	31.3	43.5	37.8	26.7
Net earnings (loss) from discontinued operations	—	—	—	(2.1)	(66.5)
Net earnings (loss) before accounting change	33.7	31.3	43.5	35.7	(39.7)
Net earnings (loss)	33.7	31.3	43.5	35.7	(41.1)
Earnings (loss) per share:					
Basic:					
Continuing operations	1.30	1.22	1.71	1.47	1.05
Discontinued operations	—	—	—	(0.09)	(2.62)
Cumulative effect of accounting change, net of tax	—	—	—	—	(0.06)
Net earnings (loss)	1.30	1.22	1.71	1.38	(1.63)
Diluted:					
Continuing operations	1.28	1.19	1.66	1.42	1.02
Discontinued operations	—	—	—	(0.08)	(2.53)
Cumulative effect of accounting change, net of tax	—	—	—	—	(0.06)
Net earnings (loss)	1.28	1.19	1.66	1.34	(1.57)
As of September 30:					
Working capital	141.2	131.4	197.2	165.2	120.5
Total assets	576.1	488.7	423.8	402.4	393.4
Long-term debt	—	—	—	0.4	0.5
Shareholders' equity	\$ 415.5	376.4	331.0	307.6	275.4

See Note 2 of Notes to Consolidated Financial Statements for discussion of acquisition activity.

Common Stock Market Price

ESCO's common stock and associated preferred stock purchase rights (subsequently referred to as common stock) are listed on the New York Stock Exchange under the symbol "ESE." The following table summarizes the high and low prices of the common stock for each quarter of fiscal 2007 and 2006.

Quarter	2007		2006	
	High	Low	High	Low
First	\$ 49.28	41.88	\$ 50.75	32.57
Second	49.20	40.67	52.76	43.84
Third	52.41	34.73	58.03	47.65
Fourth	43.50	29.63	58.42	45.30

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

Shareholders' Summary

SHAREHOLDERS' ANNUAL MEETING

The Annual Meeting of the shareholders of ESCO Technologies Inc. will be held at 9:30 a.m. Wednesday, February 6, 2008, at the Company's Corporate headquarters, 9900A Clayton Road, St. Louis, Missouri 63124. Notice of the meeting and a proxy statement were sent to shareholders with this Annual Report.

CERTIFICATIONS

Pursuant to New York Stock Exchange (NYSE) requirements, the Company submitted to the NYSE the annual certifications, dated February 23, 2007 and February 27, 2006, by the Company's chief executive officer that he was not aware of any violations by the Company of NYSE's corporate governance listing standards. In addition, the Company filed with the Securities and Exchange Commission the certifications by the Company's chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the Company's Forms 10-K for its fiscal years ended September 30, 2007 and September 30, 2006.

10-K REPORT

A copy of the Company's 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders without charge. Direct your written request to the Investor Relations Department, ESCO Technologies Inc., 9900A Clayton Road, St. Louis, Missouri 63124.

The Form 10-K is also available on the Company's web site at www.escotechnologies.com.

INVESTOR RELATIONS

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

TRANSFER AGENT AND REGISTRAR

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

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

CAPITAL STOCK INFORMATION

ESCO Technologies Inc. common stock shares (symbol ESE) are listed on the New York Stock Exchange. There were approximately 2,700 holders of record of shares of common stock at November 15, 2007.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

SUBSIDIARIES OF
ESCO TECHNOLOGIES INC.

<u>NAME</u>	<u>STATE OR JURISDICTION OF INCORPORATION OR ORGANIZATION</u>	<u>NAME UNDER WHICH IT DOES BUSINESS</u>
Beijing Lindgren ElectronMagnetic Technology Co., Ltd.	People's Republic of China	Same
Comtrak Technologies, L.L.C.	Missouri	Same
Distribution Control Systems Caribe, Inc.	Puerto Rico	Same
Distribution Control Systems, Inc.	Missouri	Same
ESCO Technologies Holding Inc.	Delaware	Same
ETS-Lindgren, L.P.	Texas	Same and Acoustics Systems
ETS-Lindgren Japan, Inc.	Japan	Same
ETS-Lindgren Limited	England	Same
ETS-Lindgren OY	Finland	Same
Hexagram, Inc.	Ohio	Same
Lindgren R.F. Enclosures, Inc.	Illinois	Same and ETS-Lindgren
Nexus Energy Software, Inc.	Massachusetts	Same
PTI Technologies Inc.	Delaware	Same
TekPackaging LLC	Delaware	Same
VACCO Industries	California	Same

Consent of Independent Registered Public Accounting Firm

The Board of Directors
ESCO Technologies Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 33-39737, 33-47916, 33-98112, 333-92945, 333-77887, 333-96309, 333-63930, 333-85268, and 333-117953) on Form S-8 of ESCO Technologies Inc. (the Company) of our reports dated November 29, 2007, with respect to the consolidated balance sheets of ESCO Technologies Inc. and subsidiaries as of September 30, 2007 and 2006 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, 2007; management's assessment of the effectiveness of internal control over financial reporting as of September 30, 2007 and the effectiveness of internal control over financial reporting as of September 30, 2007, which reports appear in the Annual Report to Stockholders for the fiscal year ended September 30, 2007 is incorporated by reference in the September 30, 2007 annual report on Form 10-K of the Company.

Our report dated November 29, 2007 on the consolidated financial statements refers to the adoption of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2007, and the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective October 1, 2005, and that the Company changed its method of quantifying errors in 2006.

/s/ KPMG LLP

St. Louis, Missouri
November 29, 2007

CERTIFICATION

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

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

Date: November 29, 2007

/s/ V.L. Richey, Jr.

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

CERTIFICATION

I, G.E. Muenster, certify that:

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

Date: November 29, 2007

/s/ G.E. Muenster

G.E. Muenster

Sr. Vice President and Chief Financial Officer

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

In connection with the annual report of ESCO Technologies Inc. (the "Company") on Form 10-K for the period ended September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, V. L. Richey, Jr., Chairman, President and Chief Executive Officer of the Company, and G. E. Muenster, Senior Vice President and Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: November 29, 2007

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

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