SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended June 30, 1996

or

( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from to

Commission file number 1-10596

ESCO ELECTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Number of common stock trust receipts outstanding at July 31, 1996: 11,400,537 receipts.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,	
	1996	1995
Net sales	$ 109,103	107,939
Costs and expenses:		
Cost of sales	107,597	83,890
Selling, general and administrative expenses	17,443	18,679
Interest expense	1,455	1,560
Other, net	2,115	2,767
Nonrecurring charges	25,300	1,968
Total costs and expenses	153,910	108,864
Loss before income taxes	(44,807)	(925)

Income tax expense (benefit)	(25,396)	308
Net loss	$ (19,411)	(1,233)
Loss per share	$ (1.72)	(.11)

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended June 30, 1996	1995
Net sales	$ 339,157	315,927
Costs and expenses:		
Cost of sales	289,123	243,277
Selling, general and administrative expenses	52,911	55,891
Interest expense	4,269	3,945
Other, net	4,728	7,440
Nonrecurring charges	25,300	30,244
Total costs and expenses	376,331	340,797
Loss before income taxes	(37,174)	(24,870)
Income tax expense (benefit)	(22,099)	463
Net loss	$ (15,075)	(25,333)
Loss per share	$ (1.35)	(2.31)

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 1996 (Unaudited)	September 30, 1995
Assets		
Current assets:		
Cash and cash equivalents	$ 1,526	320
Accounts receivable, less allowance for doubtful accounts of $339 and $242, respectively	44,233	48,224
Costs and estimated earnings on long-term contracts, less progress billings of $102,378 and $72,194 respectively	59,046	51,923
Inventories	80,620	107,421
Other current assets	4,605	3,975
Total current assets	190,030	211,863
Property, plant and equipment, at cost	121,690	116,226
Less accumulated depreciation and amortization	33,781	24,747
Net property, plant and equipment	87,909	91,479
Excess of cost over net assets of purchased businesses, less accumulated amortization of $1,460 and $1,051 respectively	20,081	20,490
Deferred tax assets, net	63,685	25,637
Other assets	20,856	28,532
	$382,561	378,001
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 56,000	39,000
Accounts payable	44,141	42,327
Advance payments on long-term contracts, less costs incurred of $9,960 and $2,816, respectively	9,419	19,617
Accrued expenses and other current liabilities	36,250	39,510
Total current liabilities	145,810	140,454
Other liabilities	31,516	31,840
Long-term debt	21,897	23,452
Total liabilities	199,223	195,746

Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value $.01 per share, authorized 10,000,000 shares		
Common stock, par value $.01 per share, authorized 50,000,000 shares; issued 11,912,764 and 11,574,420 shares, respectively	119	116
Additional paid-in capital	226,514	210,205
Retained earnings (deficit) since elimination of deficit of $60,798 at September 30, 1993	(37,027)	(21,952)
Cumulative foreign currency translation adjustment	117	292
Minimum pension liability	(1,998)	(1,998)
	187,725	186,663
Less treasury stock, at cost; 567,497 and 570,472 common shares, respectively	(4,387)	(4,408)
Total shareholders' equity	183,338	182,255
	$382,561	378,001

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended June 30,	
	1996	1995
Cash flows from operating activities:		
Net loss	$(15,075)	(25,333)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	10,809	10,516
Changes in operating working capital	(7,907)	(20,272)
Write-off of certain assets	25,300	19,744
Effect of tax valuation allowance on tax provision	(9,996)	
Other	(11,870)	(5,549)
Net cash used by operating activities	(8,739)	(20,894)
Cash flows from investing activities:		
Capital expenditures	(6,468)	(7,306)
Acquisition of business, less cash acquired		(1,596)
Net cash used by investing activities	(6,468)	(8,902)
Cash flows from financing activities:		
Net increase in short-term borrowings	17,000	30,000
Proceeds from long-term debt		1,490
Principal payments on long-term debt	(1,555)	(1,562)
Other	968	490
Net cash provided by financing activities	16,413	30,418
Net increase in cash and cash equivalents	1,206	622
Cash and cash equivalents at beginning of period	320	2,656
Cash and cash equivalents at end of period	$ 1,526	3,278

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

The accompanying condensed consolidated financial statements, in the opinion of management, include all adjustments necessary for a fair presentation of the results for the interim periods presented. The condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required by generally accepted accounting principles. For further information refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 1995. Certain prior year amounts have been reclassified to conform with the fiscal 1996 presentation. The fiscal year 1995 third quarter and nine month periods ended June 30, 1995 have been restated, as previously disclosed.

The results for the three and nine month periods ended June 30, 1996 are not necessarily indicative of the results for the entire

1996 fiscal year.

2. Loss Per Share

Loss per share is based on the weighted average number of common shares outstanding. For the three month and nine month periods ended June 30, 1996, loss per share is computed using 11,281,395 and 11,170,129 common shares outstanding, respectively. For the quarter and nine month periods ended June 30, 1995, loss per share is computed using 10,981,629 and 10,964,975 common shares outstanding, respectively.

3. Inventories

Inventories consist of the following (dollars in thousands):

	June 30, 1996	September 30, 1995
Finished Goods	$ 4,949	4,442
Work in process on long-term contracts	60,214	92,559
Raw materials	15,457	10,420
Total inventories	$ 80,620	107,421

Under the contractual arrangements by which progress payments are received, the U.S. Government has a security interest in the inventories associated with specific contracts. Inventories are net of progress payment receipts of $19,051,000 and $8,519,000 at June 30, 1996 and September 30, 1995, respectively.

4. Subsequent Event

On July 22, 1996, the Company completed the sale of its Hazeltine subsidiary to GEC-Marconi Electronic Systems Corporation (GEC). The Company sold 100% of the common stock of Hazeltine for $110 million in cash and during July, repaid all outstanding short-term borrowings, the $8 million subordinated term loan, and paid down the bank term loan from $18.5 million to $13 million. Refer to the Company's Current Report filed on Form 8-K dated August 5, 1996.

The key financial statement accounts of Hazeltine which are included in the unaudited condensed consolidated balance sheet at June 30, 1996 are as follows:

	June 30, 1996
Assets	
Accounts receivables, net	$ 8,842
Costs and estimated earnings on long-term contracts	15,931
Inventories	21,418
Property, plant & equipment	32,774
Other (current and noncurrent)	4,147
	$83,112
Liabilities and Shareholders' Equity	
Current liabilities	$26,040
Other liabilities	1,081
Long-term debt	1,396
Shareholders' equity	54,595
	$83,112

The estimated gain on the sale of Hazeltine may change upon final determination and settlement of post-closing adjustments.

Included in the nine month unaudited condensed consolidated statements of operations are the operating results of Hazeltine as follows:

	Nine Months Ended June 30,	
	1996	1995
Net sales	$86,301	80,078
Cost of sales	69,047	67,928
Selling, general and administrative expenses	11,485	10,427
Other costs and expenses, net	917	1,236
Earnings before income taxes	$ 4,852	487

Included in the consolidated backlog of firm orders at June 30, 1996 is approximately $223.3 million related to Hazeltine.

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

Results of Operations - Three months ended June 30, 1996 compared with three months ended June 30, 1995.

Net sales of $109.1 million for the third quarter of fiscal 1996 increased $1.2 million (1.1%) from net sales of $107.9 million for the third quarter of fiscal 1995. The increase was primarily due to increased volume at Hazeltine and PTI. Defense sales were $70.2 million and commercial sales were $38.9 million for the third quarter of fiscal 1996, compared with defense and commercial sales of $81.9 million and $26.0 million, respectively, in the third quarter of fiscal 1995. The increase in commercial sales in the third quarter of fiscal 1996 reflects additional sales of material handling equipment at SEI, Radio Frequency (RF) test equipment at EMC Test Systems and filtration products at PTI.

The backlog of firm orders at June 30, 1996 was $473.5 million, compared with $500.6 million at March 31, 1996. During the third quarter of fiscal 1996 new orders aggregating $82 million were received, compared with $72.4 million in the third quarter of fiscal 1995. The most significant orders in the current period were for material handling equipment, commercial filtration products, and tank transporters.

The fiscal 1996 third quarter gross profit decreased from the comparable period of fiscal 1995 primarily due to a $23 million adjustment of the estimate of the costs to complete the 60K Loader program at SEI. The fiscal 1996 third quarter gross margin, excluding the 60K Loader adjustment, decreased from the comparable period of fiscal 1995 due to changes in sales mix in both the defense and commercial segments.

Selling, general and administrative expenses for the third quarter of fiscal 1996 were $17.4 million, or 16% of net sales, compared with $18.7 million, or 17.3% of net sales, for the same period a year ago. The fiscal 1996 third quarter decrease in both spending and as a percentage of sales is a result of successful cost containment programs throughout the Company.

Interest expense was consistent in both periods presented.

Other costs and expenses, net, were $2.1 million in the third quarter of fiscal 1996 compared to $2.8 million in the same period of fiscal 1995. The decrease in fiscal 1996 reflects the absence of amortization of a contract guarantee fee previously paid to Emerson Electric Co. (Emerson).

Nonrecurring charges of $25.3 million in the third quarter of fiscal 1996 represent non-cash charges to reflect recent events which impacted the value of certain assets on the Company's balance sheet. The items affected include certain assets which management has determined are obsolete, costs incurred in anticipation of certain defense contract awards which the Company no longer expects to receive, and the downward adjustment in the Company's estimate of recoveries by the Company in a contract dispute. Nonrecurring charges of $2 million incurred during the third quarter of fiscal 1995 were related to the 1995 facilities consolidation program.

Based on the Company's historical pretax income and losses, adjusted for significant nonrecurring items such as the facilities consolidation program, the change in accounting estimates and other nonrecurring costs, together with management's projection of future taxable income, management believes it is more likely than not that the Company will realize the benefits of the net deferred tax asset existing at June 30, 1996. In order to fully realize the net deferred tax asset existing at June 30, 1996, the Company will need to generate future taxable income of approximately $180 million, a significant portion of which is required to be realized prior to the expiration of the net operating loss (NOL) carryforwards, which will begin to expire in 2006.

The Company had previously reduced its deferred tax valuation allowance systematically by utilizing projected taxable income over a specified future period of time. Management currently believes, considering the aforementioned items, the Company will generate sufficient taxable income to absorb all net operating loss carryforwards and deductible temporary differences prior to expiration of the NOLs, and accordingly, in the third quarter reduced its deferred tax valuation allowance by $21.6 million. The remaining deferred tax valuation allowance of approximately $3.5 million, represents management's best estimate of the portion of the deferred tax asset that may not be realized. Due to the 1993 Corporate Readjustment, $11.6 million of this reduction was credited directly to additional paid-in capital. The remaining $10 million was credited directly to the tax provision. There can be no assurance, however, that the Company will generate sufficient taxable income or a specific level of continuing taxable income in order to fully utilize the deferred tax assets in the future.

The provision for taxes for this period also reflects foreign, state and local taxes.

The tax expense for the three months ended June 30, 1995 reflects foreign, state and local taxes.

Results of Operations - Nine months ended June 30, 1996 compared with nine months ended June 30, 1995.
Net sales for the first nine months of fiscal 1996 were $339.2 million compared with net sales of $315.9 million for the first nine months of fiscal 1995. The increase was primarily due to increased sales volume at SEI, Hazeltine and PTI. Defense sales were $238 million and commercial sales were $101.2 million for the first nine months of fiscal 1996 compared with defense and commercial sales of $250.1 million and $65.8 million, respectively, in the first nine months of fiscal 1995. The increase in commercial sales in fiscal 1996 was the result of additional sales of material handling equipment at SEI, Radio Frequency (RF) test equipment at EMC Test Systems and filtration products at PTI.

The backlog of firm orders at June 30, 1996 was $473.5 million, compared with $530.9 million at September 30, 1995. During the first nine months of fiscal 1996, orders aggregating $281.8 million were received, the most significant of which were for aircraft cargo loaders, commercial filtration products, airborne electronic identification systems and tank tansporters. This compares to $251.9 million of orders received in the first nine months of fiscal 1995.

The gross profit percentage was 14.8% in the first nine months of fiscal 1996 compared to 23% in the first nine months of fiscal 1995. The decrease in gross profit percentage is primarily attributable to the third quarter 1996 adjustment on the 60K Loader program and changes in sales mix in both the defense and commercial segments.

Selling, general and administrative expenses for the first nine months of fiscal 1996 were $52.9 million, or 15.6% of net sales, compared with $55.9 million or 17.7% of net sales, for the same period a year ago. The fiscal 1996 decrease in both spending and as a percentage of sales is a result of successful cost containment programs throughout the Company.

Interest expense increased to $4.3 million from $3.9 million as a result of additional short-term borrowings and higher interest rates in fiscal 1996 as compared to fiscal 1995.

Other costs and expenses, net, were $4.7 million in the first nine months of fiscal 1996 as compared to $7.4 million in the first nine months of fiscal 1995. The decrease reflects the absence of amortization of a contract guarantee fee previously paid to Emerson.

Nonrecurring charges of $25.3 million in the nine months ended June 30, 1996 represent the costs as disclosed in three months ended June 30, 1996. Nonrecurring charges of $30.2 million incurred during the first nine months of fiscal 1995 were related to the facilities consolidation program and the change in accounting estimates for certain prepaid assets implemented in fiscal 1995.

The tax benefit recognized in the nine month period ended June 30, 1996 reflects state, local and foreign tax expense of $1 million, and a federal deferred tax benefit of $10 million as described in the results of operations for the three months ended June 30, 1996. In addition, the Company recognized a federal deferred tax benefit of approximately $15.7 million relating to the current quarter's pretax loss.

Tax expense in the nine month period ended June 30, 1995 reflects foreign, state and local taxes.

Financial Condition

Working capital decreased to $44.2 million at June 30, 1996 from $71.4 million at September 30, 1995. During the first nine months of fiscal 1996, accounts receivable decreased by $4 million as a result of cash collections. Inventories and costs and estimated earnings on long-term contracts decreased by $19.7 million primarily due to the nonrecurring adjustments in the quarter ended June 30, 1996. Advance payments on long-term contracts decreased by $10.2 million as production costs were incurred on certain foreign contracts. Accounts payable and accrued expenses decreased by $1.4 million during the first nine months of fiscal 1996 through payments necessary to satisfy outstanding commitments at September 30, 1995.

Net cash used by operating activities was $8.7 million in the first nine months of fiscal 1996 and $20.9 million in the same period of fiscal 1995, primarily due to the changes in operating working capital mentioned above.

Capital expenditures were $6.5 million in the first nine months of fiscal 1996 compared with $7.3 million in the first nine months of fiscal 1995. Major expenditures in the current period include capitalized facility costs at SEI, PTI and Rantec.

On July 22, 1996, the Company completed the sale of its Hazeltine subsidiary, received $110 million in cash and repaid all outstanding short-term borrowings and the $8 million subordinated term loan. The remaining term debt, paid down from $18.5 million to $13 million, will be amortized at $.325 million per quarter until maturity. The remaining excess cash balance was invested in short-term accounts pending management's application of the excess cash balances (SEE ITEM 5. Other Information.).

PART II. OTHER INFORMATION

Item 5. Other Information.

The Company's Board of Directors has approved a major share repurchase program that, subject to market conditions and certain other factors, will use up to $40 million to $50 million of the proceeds from the sale of Hazeltine to buy back shares of the Company's common stock. Depending upon market conditions and other factors, the Company expects to commence the share repurchase program within the next 90 days.

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

(a) Exhibits

Exhibit Number	Description	Filed Herewith or Incorporated by Reference
2	Stock Purchase Agreement dated as of May 23, 1996 (as amended July 19, 1996) between the Company and GEC-Marconi Electronic Systems Corporation	Incorporated by Reference to Form 8-K dated August 5, 1996 at Exhibit 2
4	Amendment, Waiver and Consent dated as of June 6, 1996 to the Credit Agreement dated as of September 23, 1990 (as amended and restated as of September 29, 1995) among the Company, Defense Holding Corp., the Banks listed therein and Morgan Guaranty Trust Company of New York, as Agent	

(b) Reports on Form 8-K. There were no reports on Form 8-K filed during the quarter ended June 30, 1996. Subsequently, the registrant filed a Current Report on Form 8-K dated August 5, 1996 related to the sale of Hazeltine to GEC.

SIGNATURE

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

ESCO ELECTRONICS CORPORATION

/s/ Philip M. Ford
Senior Vice President and
Chief Financial Officer

(as duly authorized officer and principal
financial officer of the registrant)

Dated: August 13, 1996

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<F1>THIS NUMBER DOES NOT INCLUDE $59.0 MILLION OF COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS.
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>
EXHIBIT 4

AMENDMENT, WAIVER AND CONSENT dated as of June 6, 1996 (this Amendment) to the Credit Agreement dated as of September 23, 1990 (as amended and restated as of September 29, 1995) (the Credit Agreement), among ESCO ELECTRONICS CORPORATION, a Missouri corporation (ESCO), DEFENSE HOLDING CORP., a Delaware corporation (the Borrower), the BANKS party thereto (the Banks) and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the Agent).

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

B. ESCO and the Borrower have requested that the Banks enter into this Amendment in order to permit the potential sale of Hazeltine or its assets (the Hazeltine Transaction). Hazeltine is one of the Borrower's Subsidiaries. The Banks are willing to permit the Hazeltine Transaction, subject to the terms and conditions set forth herein.

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

SECTION 1. Consent and Waiver. (a) Subject to the conditions set forth in paragraph (b) below, the undersigned Banks hereby consent to the Hazeltine Transaction under Section 5.13(b) of the Credit Agreement and waive compliance with the provisions of Sections 5.11(d) and 5.12 of the Credit Agreement to the extent, but only to the extent, necessary to allow the use of the proceeds of the Hazeltine Transaction as provided below.

(b) The foregoing consent and waiver shall be subject to the satisfaction of the following conditions:

(i) The Hazeltine Transaction shall be consummated on or before September 30, 1996, as a sale of all the outstanding capital stock or all or substantially all of the assets of Hazeltine for fair market value (and in any event no less than $100,000,000) and solely for cash consideration.

(ii) At the time of and after giving effect to the Hazeltine Transaction, no Default shall have occurred and be continuing.

(iii) On the date of consummation of the Hazeltine Transaction (the Hazeltine Closing Date), the Agent shall have received a certificate from the Borrower as to the portion of the Borrowing Base (as reflected in the most recent Borrowing Base Certificate delivered prior to the Hazeltine Closing Date) transferred as a result of the Hazeltine Transaction. The Borrowing Base shall thereupon be reduced to reflect the consummation of the Hazeltine Transaction and if on the Hazeltine Closing Date, after giving effect to the Hazeltine Transaction, the sum of the Letter of Credit Exposure plus the aggregate outstanding principal amount of the Working Capital Loans exceeds the Borrowing Base, the Borrower shall forthwith comply with Section 2.08(c) of the Credit Agreement.

(iv) None of ESCO, the Borrower or any Subsidiary shall have transferred any assets to Hazeltine prior to the Hazeltine Closing Date except in the ordinary course of business.

(v) On or prior to the Hazeltine Closing Date, unless the Borrower shall choose to remain liable after the Hazeltine Closing Date for all obligations and liabilities under the Hazeltine Letters of Credit, each Issuing Bank that shall have issued any of the Hazeltine Letters of Credit shall have received (A) letters of credit issued to such Issuing Bank in respect of the Hazeltine Letters of Credit issued by it, in amounts equal to the Letter of Credit Exposure in respect of such Hazeltine Letters of Credit and issued by a bank and in a form satisfactory to such Issuing Bank, supporting the obligations to reimburse drawings under such Hazeltine Letters of Credit, and (B) if the Hazeltine Transaction is consummated as a sale of assets, a written agreement, satisfactory in form to such Issuing Bank, signed by the purchaser of such assets, to the effect that such purchaser assumes all liability of the Borrower in respect of fees payable in respect of such Hazeltine Letters of Credit and obligations to reimburse Letter of Credit Disbursements thereunder. If each such Issuing Bank receives the letters of credit and written agreement (if any) set forth in (A) and (B) above on the Hazeltine Closing Date, the Borrower shall pay all fees in respect of the Hazeltine Letters of Credit accrued through and including the Hazeltine Closing Date.

(vi) On, or within one Business Day after, the Hazeltine Closing Date, the Borrower shall prepay Term Loans in the aggregate principal amount of $6,000,000, if such prepayment is made prior to June 30, 1996, or $5,500,000, if such prepayment is made on or after June 30, 1996. As soon as practicable after the Hazeltine Closing Date and with such advance notice as is required by the terms thereof, the Borrower shall fully prepay the PTI Note.

SECTION 2. Amendment of the Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) Section 1.01 of the Credit Agreement is hereby amended as follows:

(i) The definition of Consolidated Adjusted Net Income is hereby amended by inserting an ending parenthesis after the word nature at the end of such definition.

(ii) The definition of Letter of Credit Exposure is hereby amended by inserting at the end of the first sentence thereof: , but the Letter of Credit Exposure shall not include any drawn or undrawn amounts under the Hazeltine Letters of Credit if and when the Hazeltine Letters of Credit cease to constitute Letters of Credit as provided in Section 2.14(n).

(iii) The definition of Specified Subsidiaries is hereby amended by inserting at the end of such definition the following proviso: ;provided that Hazeltine shall cease to be a Specified Subsidiary upon consummation of the Hazeltine Transaction.

(iv) The following definitions are hereby added to Section 1.01 in their appropriate alphabetical order:

Hazeltine Closing Date means the date of consummation of the Hazeltine Transaction.

Hazeltine Letters of Credit means Letters of Credit that will remain outstanding after consummation of the Hazeltine Transaction and that are issued to support an obligation of Hazeltine or for the account of Hazeltine.

Hazeltine Transaction means the sale of all the outstanding capital stock or all or substantially all the assets of Hazeltine (and, in the case of an asset sale, the liquidation of Hazeltine) in accordance with the terms and conditions of Section 1 of the Amendment, Waiver and Consent dated as of June 6, 1996, relating to this Agreement.

Restricted Payment Amount means an amount equal to the net cash proceeds of the Hazeltine Transaction received by the Borrower less the sum of the amounts applied to prepay Term Loans and the PTI Note in connection with the Hazeltine Transaction as required by the terms and conditions of Section 1 of the Amendment, Waiver and Consent dated as of June 6, 1996, relating to this Agreement; provided that the Restricted Payment Amount shall not exceed $50,000,000.

(b) The first sentence of Section 2.08(a) of the Credit Agreement is hereby amended by inserting at the end thereof the following proviso: ;provided that if the Hazeltine Transaction is consummated, the $500,000 amount referred to above shall be reduced to $325,000 for payments due thereafter.

(c) Section 2.14 of the Credit Agreement is hereby amended by inserting at the end thereof the following additional paragraph:

(n) If the Hazeltine Transaction is consummated in accordance with Section 1 of the Amendment, Waiver and Consent dated as of June 6, 1996, relating to this Agreement and if each Issuing Bank that shall have issued any of the Hazeltine Letters of Credit shall have received the letters of credit and written agreement (if any) referred to in Section 1(b)(v) thereto, then on and as of the Hazeltine Closing Date (i) the Hazeltine Letters of Credit shall cease to constitute Letters of Credit hereunder, (ii) the Borrower, ESCO and the Subsidiaries shall be released from their obligations and liabilities in respect of the Hazeltine Letters of Credit and (iii) the Banks shall be released from their participations in the Hazeltine Letters of Credit; provided that (i) the Borrower shall indemnify the Issuing Banks in respect of the Hazeltine Letters of Credit for any failure by Hazeltine (or the purchaser of its assets) to pay fees in respect of the Hazeltine Letters of Credit after the Hazeltine Closing Date, and (ii) unless the Hazeltine Transaction is consummated as a sale by Hazeltine of its assets, Hazeltine shall not be released from its obligations and liabilities in respect of the Hazeltine Letters of Credit and shall remain liable on and after the Hazeltine Closing Date for the reimbursement of drawings under the Hazeltine Letters of Credit and for the payment of fees in respect thereof to the respective Issuing Banks, all on the terms specified in this Agreement applicable to Letters of Credit, notwithstanding any contrary provision herein or in any other Loan Document.

(d) Section 5.12 of the Credit Agreement is hereby amended as follows:

(i) Clause (ii)(b) of Section 5.12 is hereby deleted and replaced with the following: (b) the aggregate, cumulative dividends paid pursuant to this clause (ii) does not exceed during any fiscal year 25% of Consolidated Net Income for the next preceding fiscal year of ESCO plus, if the Hazeltine Transaction is consummated, additional dividends not to exceed, on a cumulative basis commencing with the Hazeltine Closing Date, the Restricted Payment Amount less any amounts paid for stock repurchases based on the Restricted Payment Amount pursuant to clause (iii) below;

(ii) Clause (iii)(b) of Section 5.12 is hereby deleted and replaced with the following: (b) aggregate Restricted Payments pursuant to this clause (iii) shall not exceed $5,000,000 during the 12-month period ending on the date of such purchase and shall not exceed $10,000,000 on a cumulative basis commencing with September 30, 1995, plus, if the Hazeltine Transaction is consummated, additional stock repurchases not to exceed, on a cumulative basis commencing with the Hazeltine Closing Date, the Restricted Payment Amount less any amounts paid as cash dividends based on the Restricted Payment Amount pursuant to clause (ii) above;

(e) Section 5.13(a) of the Credit Agreement is hereby amended by inserting at the end of the first parenthetical clause appearing in clause (iii) of such Section, immediately before the close of such parenthetical clause, the following: ;provided that, if the Hazeltine Transaction is consummated, then on and after the Hazeltine Closing Date the foregoing provisions of this parenthetical clause shall cease to apply and, in lieu thereof, such cash consideration shall not exceed, in any fiscal year, the excess of $10,000,000 over the aggregate cumulative amount of Investments made in such fiscal year in reliance upon clause (g) of Section 5.16.

(f) Section 5.16 of the Credit Agreement is hereby amended as follows:

(i) Section 5.16(c) thereof is hereby deleted in its entirety.

(ii) Section 5.16(g)(iii) is hereby amended by inserting at the end of Section 5.16(g)(iii) the following: ;provided that, if the Hazeltine Transaction is consummated, then on and after the Hazeltine Closing Date the foregoing provisions of this Section 5.16(g)(iii) shall cease to apply and, in lieu thereof, the aggregate cumulative amount of all Investments made immediately after any such Investment is made or acquired, in any fiscal year made in reliance upon this clause (g), shall not exceed the excess of $10,000,000 over the aggregate cumulative amount of consideration paid in such fiscal year in respect of acquisitions made in reliance upon clause (iii) of Section 5.13(a).

(g) Section 5.22 of the Credit Agreement is hereby amended by inserting at the end thereof the phrase minus (iv) if the Hazeltine Transaction is consummated, the aggregate amount that Consolidated Adjusted Tangible Net Worth is reduced as a result of repurchases of ESCO capital stock or the payment of any cash dividends to the holders of ESCO capital stock pursuant to clause (ii) or (iii) of Section 5.12, but only to the extent made in reliance upon the Restricted Payment Amount.

SECTION 3. Representations and Warranties. Each of ESCO and the Borrower hereby represents and warrants to each Bank, on and as of the date hereof, that:

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

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

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

SECTION 4. Effectiveness. This Amendment shall become effective upon receipt by the Agent of counterparts hereof signed by each of ESCO, the Borrower, the Required Banks and each Issuing Bank.

SECTION 5. Miscellaneous. (a) This Amendment constitutes the entire agreement and understanding of the parties with respect to the subject matter hereof and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

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

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

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

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

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

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

ESCO ELECTRONICS CORPORATION

by
/s/ Donald H. Nonnenkamp
Name: Donald H. Nonnenkamp
Title: Vice President &
Treasurer

DEFENSE HOLDING CORP.

by

/s/ P.M. Ford
Name: P.M. Ford
Title: Sr. Vice President &
CFO

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent

by
/s/ Kevin J. O'Brien
Name: Kevin J. O'Brien
Title: Vice President

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

by
/s/ Kevin J. O'Brien
Name: Kevin J. O'Brien
Title: Vice President

THE BOATMAN'S NATIONAL BANK OF ST. LOUIS

by
/s/ Debra G. Jansma
Name: Debra G. Jansma
Title: Vice President

THE BANK OF NEW YORK

by
/s/ John C. Lambert
Name: John C. Lambert
Title: Vice President

THE BANK OF NOVA SCOTIA

by
____
Name:
Title:

THE SUMITOMO BANK, LIMITED

by
/s/ Teresa A. Lekich
Name: Teresa A. Lekich

Title: Vice President

FIRST UNION NATIONAL BANK OF
NORTH CAROLINA

by
/s/ Mark M. Harden
Name: Mark M. Harden
Title: Vice President

SANWA BUSINESS CREDIT
CORPORATION

by
/s/ Lawrence J. Placek
Name: Lawence J. Placek
Title: Vice President