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 March 31, 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 (State or other jurisdiction of incorporation or organization)	43-1554045 (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 April 30, 1996: 11,265,238 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 March 31, 1996	1995
Net sales	$ 117,444	109,797
Costs and expenses:		
Cost of sales	92,336	84,145
Selling, general and administrative expenses	18,577	20,031
Interest expense	1,425	1,281
Other, net	857	2,276
Nonrecurring charges		17,362
Total costs and expenses	113,195	125,095
Earnings (loss) before income taxes	4,249	(15,298)
Income tax expense (benefit)	1,835	(250)
Net earnings (loss)	$ 2,414	(15,048)

Earnings (loss) per share, primary and fully diluted	$ .20	(1.37)

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)

	Six Months Ended March 31,	
	1996	1995
Net sales	$ 230,054	207,988
Costs and expenses:		
Cost of sales	181,526	159,387
Selling, general and administrative expenses	35,468	37,212
Interest expense	2,814	2,385
Other, net	2,613	4,673
Nonrecurring charges		28,276
Total costs and expenses	222,421	231,933
Earnings (loss) before income taxes	7,633	(23,945)
Income tax expense	3,297	155
Net earnings (loss)	$ 4,336	(24,100)
Earnings (loss) per share, primary and fully diluted	$ .37	(2.20)

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 1996 (Unaudited)	September 30, 1995
Assets		
Current assets:		
Cash and cash equivalents	$ 3,116	320
Accounts receivable, less allowance for doubtful accounts of $299 and $242, respectively	44,502	48,224
Costs and estimated earnings on long-term contracts, less progress billings of $85,416 and $72,194 respectively	64,625	51,923
Inventories	105,182	107,421
Other current assets	4,092	3,975
Total current assets	221,517	211,863
Property, plant and equipment, at cost	120,176	116,226
Less accumulated depreciation and amortization	30,653	24,747
Net property, plant and equipment	89,523	91,479
Excess of cost over net assets of purchased businesses, less accumulated amortization of $1,324 and $1,051 respectively	20,217	20,490
Other assets	53,686	54,169
	$ 384,943	378,001
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 53,500	39,000
Accounts payable	35,196	42,327
Advance payments on long-term contracts, less costs incurred of $20,072 and $2,816, respectively	16,752	19,617
Accrued expenses and other current liabilities	35,151	39,510
Total current liabilities	140,599	140,454
Other liabilities	31,657	31,840
Long-term debt	22,415	23,452
Total liabilities	194,671	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 11,786,834 and 11,574,420 shares, respectively	118	116
Additional paid-in capital	214,110	210,205
Retained earnings (deficit) since elimination of deficit of $60,798 at September 30, 1993	(17,616)	(21,952)

Cumulative foreign currency translation adjustment	51	292
Minimum pension liability	(1,998)	(1,998)
	194,665	186,663
Less treasury stock, at cost; 568,372 and 570,472 common shares, respectively	(4,393)	(4,408)
Total shareholders' equity	190,272	182,255
	$ 384,943	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)

	Six Months Ended March 31,	
	1996	1995
Cash flows from operating activities:		
Net earnings (loss)	$ 4,336	(24,100)
Adjustments to reconcile net earnings (loss) to net cash used by operating activities:		
Depreciation and amortization	7,093	6,951
Changes in operating working capital	(21,213)	(12,332)
Write-off of prepaid assets		19,555
Other	3,284	(3,746)
Net cash used by operating activities	(6,500)	(13,672)
Cash flows from investing activities:		
Capital expenditures	(4,510)	(5,275)
Acquisition of business, less cash acquired		(1,596)
Net cash used by investing activities	(4,510)	(6,871)
Cash flows from financing activities:		
Net increase in short-term borrowings	14,500	20,000
Proceeds from long-term debt		1,490
Principal payments on long-term debt	(1,037)	(1,029)
Other	343	500
Net cash provided by financing activities	13,806	20,961
Net increase in cash and cash equivalents	2,796	418
Cash and cash equivalents at beginning of period	320	2,656
Cash and cash equivalents at end of period	$ 3,116	3,074

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

The accompanying condensed consolidated financial statements, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required by generally accepted accounting principles. For further information refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 1995. Certain prior year amounts have been reclassified to conform with the fiscal 1996 presentation. The fiscal year 1995 second quarter and six month periods ended March 31, 1995 have been restated, as previously disclosed.

The results for the three and six month periods ended March 31, 1996 are not necessarily indicative of the results for the entire 1996 fiscal year.

2. Earnings (Loss) Per Share

Earnings per share are based on the weighted average number of common shares outstanding plus shares issuable upon the assumed exercise of dilutive common share options and performance shares by using the treasury stock method. Loss per share is based on the weighted average number of common shares outstanding. For the three month period ended

March 31, 1996, primary and fully diluted earnings per share are computed using 11,810,203 and 11,950,667 common shares and common share equivalents outstanding, respectively. For the six month period ended March 31, 1996, primary and fully diluted earnings per share are computed using 11,579,474 and 11,824,245 common shares and common share equivalents outstanding, respectively. For the quarter and six month periods ended March 31, 1995, loss per share is computed using 10,961,536 and 10,965,395 common shares outstanding, respectively.

3. Inventories

Inventories consist of the following (dollars in thousands):

	March 31, 1996	September 30, 1995
Finished Goods	$ 5,205	4,442
Work in process on long-term contracts	85,553	92,559
Raw materials	14,424	10,420
Total inventories	$ 105,182	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 $13,197,000 and $8,519,000 at March 31, 1996 and September 30, 1995, respectively.

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

Results of Operations - Three months ended March 31, 1996 compared with three months ended March 31, 1995.

Net sales of $117.4 million for the second quarter of fiscal 1996 increased $7.6 million (6.9%) from net sales of $109.8 million for the second quarter of fiscal 1995. The increase was primarily due to increased volume of commercial sales at Systems & Electronics Inc. (SEI) and PTI. Defense sales were $84.7 million and commercial sales were $32.7 million for the second quarter of fiscal 1996, compared with defense and commercial sales of $90.5 million and $19.3 million, respectively, in the second quarter of fiscal 1995. The increase in commercial sales in the second quarter of fiscal 1996 reflects additional sales of material handling equipment at SEI and filtration products at PTI.

The backlog of firm orders at March 31, 1996 was $500.6 million, compared with $530.9 million at September 30, 1995. During the second quarter of fiscal 1996 new orders aggregating $91.1 million were received, compared with $66.9 million in the second quarter of fiscal 1995. The most significant orders in the current period were for tank transporters, aircraft cargo loaders, and airborne radar equipment.

The gross profit percentage was 21.4% in the second quarter of fiscal 1996 and 23.4% in the second quarter of fiscal 1995. The fiscal 1996 second quarter gross margin percentage 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 second quarter of fiscal 1996 were $18.6 million, or 15.8% of net sales, compared with $20 million, or 18.2% of net sales, for the same period a year ago. The fiscal 1996 second quarter 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 $1.4 million from $1.3 million as a result of additional short-term borrowings and higher interest rates in the second quarter of fiscal 1996 as compared to the second quarter of fiscal 1995.

Other costs and expenses, net, were $.9 million in the second quarter of fiscal 1996 compared to $2.3 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 $17.4 million incurred during the second quarter 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 effective income tax rate in the second quarter of fiscal 1996 was 43.2%. Consistent with the policy implemented during fiscal 1995, the Company decreased its deferred tax valuation allowance by $.1 million during the quarter ended March 31, 1996. The impact of the Federal tax provision and the reduction in deferred tax valuation allowance were accounted for as credits to additional paid-in capital.

The effective tax rate for the three month period ended March 31, 1995 reflects foreign, state and local taxes and a $.3 million benefit for deferred tax assets originating subsequent to the accounting readjustment in fiscal 1993. The Company decreased its net deferred tax valuation allowance by $9.1 million during this period, of which $8.8 million was credited directly to additional paid-in capital.

Results of Operations - Six months ended March 31, 1996 compared with six months ended March 31, 1995.

Net sales for the first six months of fiscal 1996 were $230.1 million compared with net sales of $208 million for the first six months of fiscal 1995. The increase was primarily due to increased sales volume at SEI, PTI and Hazeltine. Defense sales were $167.7 million and commercial sales were $62.3 million for the first six months of fiscal 1996 compared with defense and commercial sales of $168.2 million and $39.8 million, respectively, in the first six months of fiscal 1995. The increase in commercial sales in fiscal 1996 was the result of additional sales of material handling equipment at SEI and filtration products at PTI.

The backlog of firm orders at March 31, 1996 was $500.6 million, compared with $530.9 million at September 30, 1995. During the first six months of fiscal 1996, orders aggregating $199.7 million were received, the most significant of which were for aircraft cargo loaders, airborne electronic identification systems, commercial filtration products and tank transporters. This compares to $179.5 million of orders received in the first six months of fiscal 1995.

The gross profit percentage was 21.1% in the first six months of fiscal 1996 compared to 23.4% in the first six months of fiscal 1995. The decrease in gross profit percentage is attributable to changes in sales mix in both the defense and commercial segments.

Selling, general and administrative expenses for the first six months of fiscal 1996 were $35.5 million, or 15.4% of net sales, compared with $37.2 million or 17.9% 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 $2.8 million from $2.4 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 were $2.6 million in the first six months of fiscal 1996 as compared to $4.7 million in the first six months of fiscal 1995. The decrease reflects the absence of amortization of a contract guarantee fee previously paid to Emerson.

Nonrecurring charges of $28.3 million incurred during the first six 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 effective income tax rate for the six month period ended March 31, 1996 was 43.2%. The effective income tax rate for the six month period ended March 31, 1995 was (.6%), which reflects foreign, state and local taxes, and a $.3 million benefit recognized in the second quarter. The tax provision for both six month periods presented was impacted by the Corporate Readjustment implemented in fiscal 1993.

Financial Condition

Working capital increased to $80.9 million at March 31, 1996 from $71.4 million at September 30, 1995. During the first six months of fiscal 1996, accounts receivable decreased by $3.7 million as a result of cash collections, and costs and estimated earnings on long-term contracts and inventories increased in the aggregate by $10.5 million primarily to satisfy near-term production and delivery requirements. Accounts payable and accrued expenses were reduced by $11.5 million during the first six months of fiscal 1996 through payments necessary to satisfy outstanding commitments at September 30, 1995.

Net cash used by operating activities was $6.5 million in the first six months of fiscal 1996 and $13.7 million in the same period of fiscal 1995, primarily due to the changes in operating working capital mentioned above.

Capital expenditures were $4.5 million in the first six months of fiscal 1996 compared with $5.3 million in the first six months of fiscal 1995. Major expenditures in the current period include capitalized facility costs at SEI and Rantec and production test equipment at Hazeltine.

PART II. OTHER INFORMATION

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

The annual Meeting of the Company's shareholders was held on Tuesday, February 13, 1996. Voted on at the meeting was the election of two directors. The voting for directors was as follows:

	FOR	WITHHELD
J. J. Adorjan	8,115,876	32,543
W. S. Antle III	8,107,849	40,570

Item 5. Other Information

On January 31, 1996, the Company announced that it is assessing the possible sale of Hazeltine Corporation and has retained J. P. Morgan as its financial advisor in this effort.

The Company has identified a cost issue relating to the 60K aircraft loader program at Systems & Electronics Inc. The Company is currently conducting an in-depth review of the 60K loader program to determine the nature and magnitude of this issue and its likely financial impact on the Company.

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

(a) Exhibits - None

(b) Reports on Form 8-K. There were no reports on Form 8-K filed during the quarter ended March 31, 1996.

SIGNATURE

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

ESCO ELECTRONICS CORPORATION

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

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

Dated: May 9, 1996

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<F1>This number does not include $64.6 million of costs and estimated earnings on long-term contracts.

</FN>