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, 1998

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 (I.R.S. Employer
incorporation or organization) Identification No.)

8888 Ladue Road, Suite 200 63124-2090
St. Louis, Missouri (Zip Code)
(Address of principal executive offices)

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, 1998: 11,965,082 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,	
	1998	1997
Net sales	$ 86,030	88,811

Costs and expenses:		
Cost of sales	61,434	66,384
Selling, general and administrative expenses	17,285	15,740
Interest expense	1,952	1,234
Other, net	647	1,069
Total costs and expenses	81,318	84,427
Earnings before income taxes	4,712	4,384
Income tax expense	1,472	1,617
Net earnings	$ 3,240	2,767
Earnings per share: - Basic	$ .27	.23
- Diluted	.26	.23

See accompanying notes to condensed consolidated financial statements.

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)

	Six Months Ended March 31,	
	1998	1997
Net sales	$164,107	157,710
Costs and expenses:		
Cost of sales	117,482	118,323
Selling, general and administrative expenses	32,817	28,691
Interest expense	3,643	1,511
Other, net	1,718	1,799
Total costs and expenses	155,660	150,324
Earnings before income taxes	8,447	7,386
Income tax expense	2,597	2,437
Net earnings	$ 5,850	4,949
Earnings per share: - Basic	$ .49	.42
- Diluted	.47	.40

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 1998	September 30, 1997

Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 6,589	5,818
Accounts receivable, less allowance for doubtful accounts of $534 and $462, respectively	44,508	48,612
Costs and estimated earnings on long-term contracts, less progress billings of $53,782 and $56,451, respectively	42,092	54,633
Inventories	82,089	45,110
Other current assets	3,477	2,794
Total current assets	178,755	156,967
Property, plant and equipment, at cost	142,180	135,002
Less accumulated depreciation and amortization	46,212	38,470
Net property, plant and equipment	95,968	96,532
Excess of cost over net assets of purchased businesses, less accumulated amortization of $3,583 and $2,735, respectively	59,078	54,996
Deferred tax assets	45,834	48,510
Other assets	21,028	21,182
	$400,663	378,187
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 47,500	25,500
Accounts payable	36,574	38,238
Advance payments on long-term contracts, less costs incurred of $1,201 and $1,624, respectively	5,974	6,348
Accrued expenses and other current liabilities	24,922	24,590
Total current liabilities	114,970	94,676
Other liabilities	27,110	28,548
Long-term debt	47,208	50,000
Total liabilities	189,288	173,224
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, par value $.01 per share, authorized 10,000,000 shares	-	-
Common stock, par value $.01 per share, authorized 50,000,000 shares; issued 12,519,924 and 12,478,328 shares, respectively	125	125
Additional paid-in capital	195,696	194,663
Retained earnings since elimination of deficit of $60,798 at September 30, 1993	21,831	15,981
Cumulative foreign currency translation adjustment	(528)	196
Minimum pension liability	(181)	(181)
	216,943	210,784
Less treasury stock, at cost; 654,945 and 689,945 common shares, respectively	(5,568)	(5,821)
Total shareholders' equity	211,375	204,963
	$400,663	378,187

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended March 31,	
	1998	1997
Cash flows from operating activities:		
Net earnings	$ 5,850	4,949
Adjustments to reconcile net earnings to net cash used by operating activities:		
Depreciation and amortization	9,168	6,140
Changes in operating working capital, net of acquired business	(23,233)	(17,941)
Other	3,313	2,203
Net cash used by operating activities	(4,902)	(4,649)
Cash flows from investing activities:		
Capital expenditures	(6,539)	(4,251)
Acquisition of businesses, less cash acquired	(4,722)	(92,900)
Net cash used by investing activities	(11,261)	(97,151)
Cash flows from financing activities:		
Net increase in short-term borrowings	20,976	37,500
Proceeds from Long-term debt	-	60,000
Principal payments on long-term debt	(3,052)	(13,675)
Other	(990)	102
Net cash provided by financing activities	16,934	83,927
Net increase (decrease) in cash and cash equivalents	771	(17,873)
Cash and cash equivalents, beginning of period	5,818	22,209
Cash and cash equivalents, end of period	$ 6,589	4,336

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

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

The results for the three and six month periods ended March 31, 1998 are not necessarily indicative of the results for the entire 1998 fiscal year.

2. Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options and performance shares by using the treasury stock method. The number of shares used in the calculation of earnings per share for each period presented is as follows (in thousands):

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997	Six Months ended March 31, 1998	Six Months ended March 31, 1997
Weighted Average Shares Outstanding - Basic	11,848	11,808	11,833	11,814
Dilutive Options and Performance Shares	731	459	741	428
Adjusted Shares - Diluted	12,579	12,267	12,574	12,242

Options to purchase 62,000 shares of common stock at approximately $18.00 per share and options to purchase 100,750 shares of common stock at $12.38 were outstanding during the six month periods ended March 31, 1998 and March 31, 1997, respectively, but were not included in the respective computations of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in 2007 and 2008. Approximately 157,000 and 334,000 performance shares were outstanding but earned at March 31, 1998, and 1997, respectively, and therefore, were not included in the respective computations of diluted EPS. The unearned performance shares expire in 2001.

3. Inventories

Inventories consist of the following (dollars in thousands):

	March 31, 1998	September 30, 1997
Finished Goods	$ 9,315	8,542
Work in process, including long-term contracts	56,361	22,971
Raw materials	16,413	13,597
Total inventories	$ 82,089	45,110

Under the contractual arrangements by which progress payments are received, the U.S. Government has a security interest in the inventories associated with specific contracts. Inventories are net of progress payment receipts of $2.1 million and $3.2 million at March 31, 1998 and September 30, 1997, respectively. The increase in inventories (work-in-process) is primarily related to the TUNNER program at SEI, as well as a normal inventory build-up at the other operating units necessary to satisfy the increased sales requirements for the remaining six months of fiscal 1998.

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

Results of Operations - Three months ended March 31, 1998 compared with three months ended March 31, 1997.

Net sales of $86.0 million for the second quarter of fiscal 1998 decreased $2.8 million (3.1%) from net sales of $88.8 million for the second quarter of fiscal 1997. The sales decrease in the current quarter reflects lower defense sales at Systems & Electronics Inc. (SEI) resulting from the timing of the receipt of orders. This decrease was partially offset by additional commercial sales resulting from the Filtertek acquisition ($7.3 million net increase) and higher volume at EMC Test Systems. Commercial sales were $44.2 million (51.4%) and defense sales were $41.8 million (48.6%) for the second quarter of fiscal 1998, compared with commercial and defense sales of $39.1 million (44.0%) and $49.7 million (56.0%), respectively, in the second quarter of fiscal 1997.

Order backlog at March 31, 1998 was $253.4 million, compared with $238.9 million at December 31, 1997. During the fiscal 1998 second quarter, new orders aggregating $100.5 million were received, compared with $95.5 million in the second quarter of fiscal 1997. The most significant orders in the current period were for filtration/fluid flow products, M1000 tank transporters and long-lead funding for the 60K/TUNNER aircraft cargo loader program.

The gross profit percentage was 28.6% in the second quarter of fiscal 1998 and 25.3% in the second quarter of fiscal 1997. The gross margin increased in the second quarter of fiscal 1998 due to an improved sales mix primarily related to the filtration/fluid flow businesses. Filtertek and PTI reported higher gross margins in the current quarter as compared to the prior year second quarter. The defense gross margin also increased in the current period due to changes in sales mix.

Selling, general and administrative (SG&A) expenses for the second quarter of fiscal 1998 were $17.3 million, or 20.1% of net sales, compared with $15.7 million, or 17.7% of net sales, for the same period a year ago. The increase in fiscal 1998 SG&A expenses is primarily due to the inclusion of Filtertek for the entire period of fiscal 1998 as compared to a partial period of fiscal 1997 as the acquisition was completed February 7, 1997.

Interest expense increased to $2.0 million in fiscal 1998 from $1.2 million in fiscal 1997 as a result of higher average outstanding borrowings in the current period. A significant amount of the outstanding borrowings in 1998 were incurred in conjunction with the 1997 acquisition of Filtertek.

Other costs and expenses, net, were $.6 million in the second quarter of fiscal 1998 compared to $1.1 million in the same period of fiscal 1997. The decrease in fiscal 1998 primarily reflects the impact of a favorable modification of a royalty agreement.

The effective income tax rate in the second quarter of fiscal 1998 was 31.2% compared to 36.9% in the second quarter of fiscal 1997. The lower effective tax rate is primarily attributable to the earnings contributed from the Company's Puerto Rican operations.

Results of Operations - Six months ended March 31, 1998 compared with
- ---------------------   six months ended March 31, 1997

Net sales of $164.1 million for the first six months of fiscal 1998 increased $6.4 million (4.1%) from net sales of $157.7 million for the first six months of fiscal 1997. The increase was primarily due to the Filtertek results of operations being included for the entire period in fiscal 1998, versus approximately seven weeks of operations during fiscal 1997. This increase was partially offset by a decrease in defense sales at SEI. PTI and EMC Test Systems also reported increases in year-to-year sales. Commercial sales were $90.8 million (55.3%) and Defense sales were $73.3 million (44.7%) for the first six months of fiscal 1998, compared with commercial and defense sales or $65.5 million (41.5%) and $92.2 million, (58.5%) respectively, in the first six months of fiscal 1997.

The order backlog at March 31, 1998 was $253.4 million, compared with $228.2 million at September 30, 1997. During the first six months of fiscal 1998, new orders aggregating $189.3 million were received, compared with $152.6 million (24% increase) in the first six months of fiscal 1997. The most significant orders in the current period were for filtration/fluid flow products, M1000 tank transporters, long-lead funding for the 60K/TUNNER aircraft cargo loader program, airborne radar systems, automatic meter reading equipment and fire support mission equipment.

The gross profit percentage was 28.4% in the first six months of fiscal 1998 and 25.0% in the first six months of fiscal 1997. The fiscal 1998 gross profit percentage increased from fiscal 1997 due to an improved sales mix primarily related to the filtration/fluid flow businesses. Filtertek and PTI reported higher gross margins in the current year period as compared to the prior year period. The defense gross margin also increased in the current year due to an improved sales mix.

Selling, general and administrative expenses for the first six months of fiscal 1998 were $32.8 million, or 20.0% of net sales, compared with

$28.7 million or 18.2% of net sales, for the same period a year ago. The increase in fiscal 1998 SG&A expenses is primarily due to the inclusion of Filtertek for the entire period of fiscal 1998 as compared to a partial period of fiscal 1997 as the acquisition was completed February 7, 1997.

Interest expense increased to $3.6 million from $1.5 million as a result of higher average outstanding borrowings in fiscal 1998 compared to fiscal 1997. A significant amount of the outstanding borrowings in 1998 were incurred in conjunction with the 1997 acquisition of Filtertek.

Other costs and expenses, net, were $1.7 million in the first six months of fiscal 1998 compared to $1.8 million in the same period of fiscal 1997. The net decrease in fiscal 1998 reflects additional goodwill amortization expense associated with the acquisition of Filtertek, offset by the favorable modification of a royalty agreement as reported in the second quarter of fiscal 1998.

The effective income tax rate in the first six months of fiscal 1998 was 30.7% compared with 33.0% for the first six months of fiscal 1997. The lower effective tax rate for the first six months of fiscal 1998 is attributable to the earnings contributed from the Company's Puerto Rican operations, and refunds received relating to the resolutions of state and local tax matters. Management estimates the annual effective tax rate for fiscal 1998 to be approximately 32%.

Financial Condition

Working capital increased to $63.8 million at March 31, 1998 from $62.3 million at September 30, 1997. During the first six months of fiscal 1998: accounts receivable decreased by $4.1 million as a result of cash collections; costs and estimated earnings on long-term contracts and inventories increased in the aggregate by $24.4 million in support of near-term production requirements (primarily 60K/TUNNER); and accounts payable and accrued expenses decreased by $1.3 million through payments necessary to satisfy commitments outstanding at September 30, 1997.

Net cash used by operating activities was $4.9 million in the first six months of fiscal 1998 and $4.6 million in the same period of fiscal 1997. The 1998 cash usage was primarily due to the inventory requirements discussed in the previous paragraph.

Capital expenditures were $6.5 million in the first six months of fiscal 1998 compared with $4.3 million in the comparable period of fiscal 1997. Major expenditures in the current period included manufacturing equipment at Filtertek and PTI.

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

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 Thursday, February 12, 1998. Voted on at the meeting was the election of two directors. The voting for directors was as follows:

	For	Withheld
J. J. Carey	10,716,079	30,248
D. J. Moore	10,716,647	29,680

Item 5. Other Information.

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

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

In conjunction with this assessment, the Company is finalizing its action plans to address the Y2K issue, including contingencies to address unforeseen problems. The Company plans to use both internal and external resources to complete Y2K reprogramming, software replacement and testing. Preliminary plans anticipate completion of the Y2K remedial work by mid-1999. To date, the company has incurred approximately $1 million related to the Y2K remedial work. The total cost of the Y2K remedial work is estimated to be less than $5 million and will be expensed as incurred over the next 18 months.

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

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, 1998.

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 14, 1998

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