

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, 2009

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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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 trading on March 31, 2009:
\$995,623,909*

* 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 23, 2009: 26,442,188.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 2009 (the "2009 Annual Report") (Parts I and II).
 2. Portions of the registrant's Proxy Statement dated December 22, 2009 (the "2010 Proxy Statement") (Part III).
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ESCO TECHNOLOGIES INC.
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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 utility, industrial, aerospace and commercial applications. ESCO operates in three operating segments which, together with the operating subsidiaries within each segment, are as follows:

Utility Solutions Group ("Utility Solutions"):

Aclara Power-Line Systems Inc. ("Aclara PLS")
Aclara RF Systems Inc. ("Aclara RF")
Aclara Software Inc.
Distribution Control Systems Caribe, Inc.
Doble Engineering Company
Doble TransiNor AS
Doble PowerTest Limited
Doble Lemke GmbH (formerly "LDIC GmbH")
Doble Lemke AG (formerly "LDIC AG")

RF Shielding and Test ("Test"):

ETS-Lindgren L.P.
Lindgren R.F. Enclosures, Inc.
ETS-Lindgren OY
ETS Lindgren Limited
Beijing Lindgren ElectronMagnetic Technology Co., Ltd.
ETS Lindgren Engineering India Private Limited
ETS Lindgren Japan, Inc.

Filtration/Fluid Flow ("Filtration"):

PTI Technologies Inc. ("PTI")
VACCO Industries ("VACCO")
TekPackaging LLC

The Aclara entities listed above are hereinafter collectively referred to as "Aclara". The Doble entities listed above are hereinafter collectively referred to as "Doble". All of the Test segment entities listed above are hereinafter collectively referred to as "ETS-Lindgren".

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 collectively referred to 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 2009 Annual Report, which is herein incorporated by reference, and "Forward-Looking Information" below.

On September 21, 2009, the Company acquired a minority equity interest in Firetide, Inc. for \$4 million in cash. Firetide, Inc. is a provider of wireless infrastructure mesh network management systems utilized in utility applications.

On July 2, 2009, the Company acquired certain assets of Complus Systems Pvt Ltd. ("Complus") in India for approximately \$1.2 million in cash. Complus had been a distributor of ETS-Lindgren products in India. The assets were contributed to the Company's recently-formed subsidiary, ETS Lindgren Engineering India Private Limited.

DISCONTINUED OPERATION

On March 13, 2009 the Company completed the sale of the business and most of the assets of Comtrak Technologies, LLC (“Comtrak”) for \$3.1 million, net, of cash. Comtrak is accounted for as a discontinued operation in the Consolidated Financial Statements and related notes in the 2009 Annual Report.

The following sections of this Item 1 refer to the Company’s continuing operations, except where noted. Accordingly, dollar amounts and percentages presented below in this Item 1 for all periods reflect continuing operations by excluding Comtrak. See Note 2 of the Notes to Consolidated Financial Statements in the 2009 Annual Report, which Note is herein incorporated by reference.

PRODUCTS

The Company’s products are described below. See Note 15 of the Notes to Consolidated Financial Statements in the 2009 Annual Report for financial information regarding segments, which Note is herein incorporated by reference.

UTILITY SOLUTIONS

The Utility Solutions segment accounted for approximately 61%, 58% and 44% of the Company’s total revenue in fiscal years 2009, 2008 and 2007, respectively.

Aclara RF provides, through its STAR® network, wireless radio frequency (“RF”) data communications systems to gas, water and electric utilities for advanced metering infrastructure (“AMI”) applications. The STAR® network provides accurate and timely billing, high/low consumption reporting, and non-revenue water loss detection. In November 2005, Aclara RF entered into a contract with Pacific Gas & Electric (PG&E) to provide its communications system for the gas meter portion of PG&E’s AMI Project, and also gave PG&E the option to purchase Aclara RF’s fixed network systems for the electric portion of the Project. The total anticipated contract revenue through the full five-year gas portion deployment is approximately \$225 million, of which \$190 million had been recorded through September 30, 2009. Items are purchased only upon issuance of purchase orders at the election of PG&E, and the contract is subject to certain contingencies and uncertainties. Total revenue received by Aclara RF in fiscal 2009 from the gas meter portion of this contract was \$98 million. In fiscal 2009, PG&E notified Aclara RF that no further electric meter products would be purchased under this contract. For further discussion of this contract and certain related contingencies and uncertainties, see Item 1A Risk Factors and “Management’s Discussion and Analysis — Pacific Gas & Electric” appearing in the 2009 Annual Report. Revenues from STAR® network products, which may be considered a class of similar products, accounted for approximately 25%, 17% and 11% of the Company’s total revenue in fiscal years 2009, 2008 and 2007, respectively.

Aclara PLS 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 Company, in fiscal 2008, completed the development of its TWACS NG™ software and released it for commercial use. 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 19%, 25% and 29% of the Company’s total revenue in fiscal years 2009, 2008 and 2007, respectively.

The Company’s total sales to PG&E in fiscal 2009, comprising all Aclara sales described above, were \$106.2 million, which represented approximately 17% of the Company’s consolidated net sales.

Aclara Software Inc. provides utilities with software systems for energy and water information, delivering a scalable meter data management system (“MDMS”), comprehensive AMI/meter device records and asset management, proven business applications addressing areas such as revenue assurance and distribution

asset analysis, and the industry's leading customer presentment and analysis applications. Aclara's analytics-based software applications are used by over 100 major energy organizations worldwide.

Doble is a supplier of high-end electronic diagnostic test products and services to the electric utility industry for the evaluation of power assets. Its products and services are used by electric utilities representing approximately 95% of the generated electric energy of North America and by the major manufacturers of electric power apparatus. Doble is a leading supplier of partial discharge testing instruments used to assess the integrity of high voltage power delivery equipment. It has been operating for over 80 years, and serves customers in 75 countries worldwide.

TEST

The Test segment accounted for approximately 22%, 23% and 32% of the Company's total revenue in fiscal years 2009, 2008 and 2007, 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.

FILTRATION

The Filtration segment accounted for approximately 17%, 19% and 24% of the Company's total revenue in fiscal years 2009, 2008 and 2007, 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, helicopters and mobile equipment hydraulic systems, aircraft engines and plant equipment. 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 thermoformed products and packaging materials for medical, retail, food and electronic applications.

MARKETING AND SALES

The Filtration and Test segments' products, as well as Doble's products, generally are distributed to customers through a domestic and foreign network of distributors, sales representatives and in-house salespersons. Aclara's sales to investor-owned utilities are made directly to the utilities through its sales team.

Aclara utilizes distributors and direct sales representatives to sell its systems to the electric utility cooperative and municipal markets, and to gas, water and combination utilities. Aclara's software products are marketed utilizing its in-house sales force.

The Company's international sales accounted for approximately 18%, 21% and 19% of the Company's total sales in the fiscal years ended September 30, 2009, 2008 and 2007, respectively. See Note 15 of the Notes to Consolidated Financial Statements in the 2009 Annual Report for financial information regarding geographic areas, which Note is herein incorporated by reference. See also Item 1A 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, primarily related to the Filtration segment, accounted for approximately 5%, 6% and 8% of the Company's total sales in the fiscal years ended September 30, 2009, 2008 and 2007, 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 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 1A Risk Factors.

In the Utility Solutions 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. The expiration of the above patents in 2010 is not expected to have a material effect on the Company's operations. Other patents covering inbound and outbound signal detection expired in 2007. The Utility Solutions 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. The Company holds two significant patents which cover the operation of its STAR® network communications systems. These will expire in 2015 and 2016. Doble holds an extensive library of apparatus performance information useful to Doble employees and to entities that generate, distribute or consume electric energy. Doble makes part of this library available to registered users via an Internet portal.

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.

With respect to the Filtration segment, a 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.

The Company considers its patent and other intellectual property to be of significant value in each of its segments. The Utility Solutions 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 "Utility Solutions" 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 at September 30, 2009 was \$299.4 million, representing an increase of \$14.9 million (5.2%) from the beginning of the fiscal year backlog of \$284.5 million. The backlog of firm orders at September 30, 2009 and September 30, 2008, respectively, was: \$132.4 million and \$143.2 million for Utility Solutions; \$54.2 million and \$69.8 million for Test; and \$112.8 million and \$71.5 million for Filtration. As of September 30, 2009, it is estimated that domestic customers accounted for approximately 76% of the Company's total firm orders, and international customers accounted for approximately 24%. Of the Company's total backlog of orders at September 30, 2009, approximately 88% is expected to be completed in the fiscal year ending September 30, 2010.

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 1A Risk Factors.

In the Utility Solutions segment, in addition to its internal manufacturing of RF end-products, Aclara RF has contracts with three independent manufacturers which produce and supply a significant amount of such end-products, as well as contracts with several of the suppliers of the raw materials that are incorporated into such end-products. Aclara PLS has arrangements with two independent manufacturers which produce and supply substantially all of Aclara PLS's power-line end-products. One of these manufacturers is an industry leader with worldwide operations. Each of these manufacturers is directed by Aclara PLS to purchase certain unique raw material components from suppliers designated by Aclara PLS. Aclara PLS also has contracts with certain of the raw material suppliers, directing them to supply such raw materials to Aclara PLS's manufacturers. The Company believes that the above-described manufacturers and suppliers will be reliable sources for Aclara's end-products for the foreseeable future.

The Test segment is a vertically integrated supplier of electro-magnetic ("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.

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. For example, titanium, an important raw material for VACCO, may continue to sometimes be in short supply.

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 particularly intense during periods of economic slowdown, and this has been experienced 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, Aclara is believed to be a leading supplier in the fixed network segment of the AMI market.

This fixed network segment comprises a substantial part of the total AMI 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 1A Risk Factors.

Primary competitors of Aclara in the utility communications market include Itron, Inc., Silver Spring Networks, Landis + Gyr, Cannon Technologies Inc., Sensus Metering Systems Inc., Trilliant Inc., Elster Electricity, L.L.C., Comverge, Inc., Neptune Technology Group, e-Meter Corporation, Oracle Corporation, APOGEE Interactive Inc., Ecologic Analytics, LLC, SmartSynch, Inc. and Tantalus Systems Corp. OMICRON electronics Corp. USA has for some time been a primary competitor of Doble in the international market, and has recently increased competition in the North America market. OMICRON has the ability to heavily fund research and development. In addition, Megger Group Limited has recently emerged as a significant competitor to Doble.

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.

Primary competitors of the Filtration segment include Pall Corporation, Moog, Inc., SoFrance, Allied Signal and Clarcor Inc.

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, 2009, 2008 and 2007, total Company-sponsored research and development expenses were approximately \$32.0 million, \$33.0 million and \$23.5 million, respectively. Total customer-sponsored research and development expenses were approximately \$2.9 million, \$5.3 million and \$3.7 million for the fiscal years ended September 30, 2009, 2008 and 2007, respectively. All of the foregoing expense amounts exclude certain engineering costs primarily associated with product line extensions, modifications and maintenance, which amounted to approximately \$14.4 million, \$8.6 million and \$7.8 million for the fiscal years ended September 30, 2009, 2008 and 2007, 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 condition or results of operations.

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

Government contracts.

EMPLOYEES

As of September 30, 2009, the Company employed approximately 2,140 persons.

FINANCING

The Company maintains a \$330 million five-year revolving credit facility with a \$50 million increase option. The facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of sixteen banks, led by National City Bank as agent, with a maturity of November 30, 2012. 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 — Bank Credit Facility" in the 2009 Annual Report, and Note 9 of the Notes to Consolidated Financial Statements in the 2009 Annual Report, which information is herein incorporated by reference.

HISTORY OF THE BUSINESS

ESCO was incorporated in Missouri in August 1990 as a wholly-owned subsidiary of Emerson Electric Co. ("Emerson") to be the 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 production and supply of engineered products and systems marketed to utility, industrial, aerospace and commercial users. Effective July 10, 2000, ESCO changed its name from ESCO Electronics Corporation to ESCO Technologies Inc. See Notes 2 and 3 of the Notes to Consolidated Financial Statements in the 2009 Annual Report, which Notes are herein incorporated by reference.

AVAILABLE INFORMATION

The Company makes available free of charge on or 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 2009 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.

MOST UTILITY SOLUTIONS 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 Utility Solutions segment's sales are to or for the utility industry, where sales cycles are long and often unpredictable due to budgeting, purchasing and regulatory approval processes that can take up to several years to complete. Most Aclara 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 or delaying the Company's future revenue. In addition, delays in the receipt of grants by certain utility customers under the American Recovery and Reinvestment Act of 2009 may cause delays in the placement of orders with Aclara. Also, these customers' selection of vendors may be influenced by the specific terms of such grants, such as buy-American requirements, which may prohibit the supply by

Aclara of products produced outside the U.S.

NEGATIVE WORLDWIDE ECONOMIC CONDITIONS AND RELATED CREDIT SHORTAGES COULD RESULT IN A DECREASE IN THE COMPANY'S SALES AND AN INCREASE IN ITS OPERATING COSTS, WHICH COULD ADVERSELY AFFECT ITS BUSINESS AND OPERATING RESULTS.

If there is a worsening of current global and U.S. economic and financial market conditions and additional tightening of global credit markets, many of the Company's customers may further delay or reduce their purchases of its products. The current uncertainties in the global economy may cause the utility industry to experience shortages in available credit, which could limit capital spending. To the extent this problem affects customers of the Utility Solutions segment, the sales and profits of this segment could be adversely affected. Likewise, if the Company's suppliers face challenges in obtaining credit, they may have to increase their prices or become unable to continue to offer the products and services the Company uses to manufacture its products, which could have an adverse effect on its business, results of operations and financial condition.

CREDIT SHORTAGES COULD AFFECT THE PRICING OF THE COMPANY'S CREDIT FACILITY INCREASE OPTION.

Tightening of the global credit markets could cause an increase in the pricing or fees related to the Company's overall credit facility if the Company exercises its \$50 million increase option.

A SIGNIFICANT PORTION OF THE UTILITY SOLUTIONS SEGMENT REVENUES MAY BE GENERATED BY A LIMITED NUMBER OF LARGE CONTRACTS.

A significant portion of the Utility Solutions segment's business may be dependent on several large contracts with customers. The loss of revenue which would result from such a customer's selection of other suppliers, cancellations, delays, reductions, regulatory actions or the Company's failure to perform in connection with such a contract could have a material adverse effect on the Company's business, results of operations and financial condition.

THE COMPANY'S QUARTERLY RESULTS MAY FLUCTUATE SUBSTANTIALLY.

The Company has experienced variability in quarterly results and believes its quarterly results will continue to fluctuate as a result of many factors, including the size and timing of customer orders, Federal Communications Commission or other governmental actions, changes in existing taxation rules or practices, the gain or loss of significant customers, timing and levels of new product developments, shifts in product or sales channel mix, increased competition and pricing pressure, and general economic conditions affecting enterprise spending for the utility industry.

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.

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 Utility Solutions segment's manufacturing operations relies on a small number of third-party manufacturers to supply the segment's products. For example, Aclara has arrangements with four manufacturers which produce and supply substantially all of Aclara'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 Aclara's products to customers and future sales. Also, most of Doble's manufacturing operations rely on third-party manufacturers to supply its products. Disruption in the supply of critical components such as integrated circuit components could have an adverse impact on business by, among other things, increasing costs and reducing margins.

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, there is an increased risk of adverse impacts on the Company's production schedules and profits if the Company's suppliers were to default in fulfilling their price, quality or delivery obligations.

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 Aclara meter modules are installed in thousands of residences and other buildings. The replacement/repair costs for such products, if defective, could have a material adverse effect on the Company's financial condition. Also, the Filtration segment obtains raw materials, machined parts and other product components from suppliers who provide certifications of quality which are relied on by the Company. Should these product components be defective and pass undetected into finished products, there could be significant costs to the Company for repairs, re-work or replacement.

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 against the Company.

INCREASES IN RAW MATERIAL PRICES AND DECREASED 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.

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

In fiscal 2009, approximately 18% 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 and Europe. Changes in the Asian political climate or political changes in specific Asian countries could negatively affect the Company's business. Weakness in the European economy could have a significant adverse effect on the Company's European revenues. For example, Doble Lemke GmbH is based in Germany and could be negatively impacted by weakness in the European economy.

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 fiscal years, from 5% to 8% of the Company's revenues have 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 adversely affect the Company's sales and profit, and could bring about a restructuring of Company operations, which could result in an adverse effect on its financial condition or results of operations.

For example, a significant part of VACCO's sales involve major U.S. 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.

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 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 identify and evaluate the risks inherent in any future transaction, the Company may not 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, and may not 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.

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.

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 general contractors to produce end-products, such as electronic test chambers, secure communication rooms, MRI facilities, etc. 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, a loss on a particular project, or even a significant damages award against the Company.

THE LOSS OF SPECIALIZED KEY EMPLOYEES COULD AFFECT PERFORMANCE AND REVENUES.

There is a risk of the Company's losing key employees having engineering and technical expertise to other employers. For example, the Utility Solutions segment relies heavily on engineers with significant experience and reputation in the utility industry to furnish expert consulting services and support to customers. There is a current trend of a shortage of these qualified engineers because of hiring competition from other companies in the industry. Loss of these employees to other employers could reduce the segment's ability to provide services and affect revenues negatively.

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. These regulations, and changes therein, 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. For example, the Company is currently involved as a responsible party in several on-going investigations and remediations of contaminated properties, both Company-owned and off-site. Future costs associated with these situations are difficult to quantify. These and any future costs associated with environmental issues currently unknown could have a significant effect on the Company's financial condition. See Item 1, Business-Environmental Matters for a discussion of these factors.

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, global in scope, 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, 2010 revenues, EBIT, EPS, adequacy of the Company's credit facilities and future cash flows, estimates of anticipated contract costs and revenues, the anticipated total value of the Aclara RF Contract with PG&E and with the City of New York, the anticipated total value of Aclara PLS's contract with Idaho Power Company, the anticipated total value of TekPackaging's recently received five year production contract, the outcome of current litigation, claims and charges, the anticipated timing and amount of lost deferred tax assets, continued reinvestment of foreign earnings, the timing, total value and period of performance of contracts awarded to the Company, the accuracy of the Company's estimates utilized in software revenue recognition, the accuracy of the Company's estimates utilized to project costs at completion in the Test segment and Filtration segment, income tax liabilities, the effective tax rate, the amount, timing and ability to use net research tax credits, the timing and amount of the reduction of unrecognized tax benefits, repayment of debt within the next twelve months, the recognition of costs related to share-based compensation arrangements, 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 "Management's Discussion and Analysis" in the 2009 Annual Report, 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 this "Item 1A. Risk Factors" and the following: the timing and content of purchase order releases under the PG&E contract; 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; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; 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.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company's principal buildings contain approximately 1,129,858 square feet of floor space. Approximately 715,200 square feet are owned by the Company and approximately 414,658 square feet are leased. See Note 7 of the Notes to Consolidated Financial Statements in the 2009 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>Owned/Leased</u>	<u>Lease Expiration Date</u>	<u>Principal Use (Operating Segment)</u>
Cedar Park, TX	140,000	Owned		Management, Engineering and Manufacturing (Test)
Oxnard, CA	127,400	Owned		Management, Engineering and Manufacturing (Filtration)

Location	Size (Sq. Ft.)	Owned/Leased	Lease Expiration Date	Principal Use (Operating Segment)
Cleveland, OH	111,258	Leased	9-1-2019 (two 5-year renewal options)	Management, Engineering and Manufacturing (Utility Solutions)
South El Monte, CA	100,100	Owned		Management, Engineering and Manufacturing (Filtration)
Durant, OK	100,000	Owned		Manufacturing (Test)
Watertown, MA	88,800	Owned		Management, Engineering and Manufacturing (Utility Solutions)
St. Louis, MO	86,800	Leased	3-31-2013 (one 5-year renewal option)	Management and Engineering (Utility Solutions)
Huntley, IL	85,000	Owned		Management and Manufacturing (Filtration)
Glendale Heights, IL	59,400	Leased	3-31-2010 (three 3-year renewal options)	Management, Engineering and Manufacturing (Test)
Beijing, China	50,600	Leased	4,600 sq. ft. office 12-14-2010 46,000 sq. ft. plant 12-31-2009	Manufacturing (Test)
Eura, Finland	40,900	Owned		Management, Engineering and Manufacturing (Test)
St. Louis, MO	33,000	Owned		Management and Engineering (Utility Solutions)
Minocqua, WI	30,200	Leased	3-31-2010 (three 3-year renewal options)	Engineering and Manufacturing (Test)
St. Louis, MO	20,500	Leased	8-31-2015 (one 5-year renewal option)	ESCO Headquarters
Wellesley, MA	18,500	Leased	9-30-2012	Management and Engineering (Utility Solutions)
Morrisville, NC	16,700	Leased	3-31-2014 (one 3-year renewal option)	Management (Utility Solutions)
Stevenage, England	12,200	Leased	8-11-2017 (option to terminate in 2012)	Management, Engineering and Manufacturing (Test)
Kesselsdorf, Germany	8,500	Leased	5-31-2012	Management, Engineering and Manufacturing (Utility Solutions)

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 and other needs.

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 25, 2009 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.*	52	Chairman, President and Chief Executive Officer
Gary E. Muenster	49	Executive Vice President and Chief Financial Officer
Alyson S. Barclay	50	Senior 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 April 2003, Mr. Richey has been Chairman and Chief Executive Officer of ESCO. Since October 2006, he has also been President.

Mr. Muenster was Vice President and Chief Financial Officer of ESCO from October 2002 until November 2005. From November 2005 until February 2008, he was Senior Vice President and Chief Financial Officer. Since the latter date, he has been Executive Vice President and Chief Financial Officer.

Ms. Barclay was Vice President, Secretary and General Counsel of ESCO from October 1999 until November 2008. Since the latter date, she has been Senior Vice President, Secretary and General Counsel.

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 2009 Annual Report. As of November 10, 2009, there were approximately 2,400 record holders of Common Stock (including Company employees holding shares under the Employee Stock Purchase Plan). No cash dividends on ESCO's common stock have been paid for fiscal years 2008 or 2009. However, the Board of Directors, on November 12, 2009, adopted a resolution to initiate quarterly cash dividends payable at an annual rate of \$0.32 per share on the common stock. The first quarterly dividend of \$0.08 per share will be paid on January 19, 2010 to stockholders of record as of January 4, 2010. Like

quarterly dividends shall be paid each quarter thereafter until such time as the Board of Directors may terminate or amend the dividend declaration. Currently, the credit facility prohibits a cash dividend, but the Company has made arrangements with its lender banks to amend the credit facility to permit the cash dividend payments described above. 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	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2009	0	N.A.	0	\$30 Million
August 1-31, 2009	0	N.A.	0	\$30 Million
Sep. 1-30, 2009	0	N.A.	0	\$30 Million
Total	0	N.A.	0	\$30 Million

* On July 30, 2009, the Board of Directors announced a new common stock repurchase program (the "2009 Program") for a maximum total value of \$30 Million. The 2009 Program will expire September 30, 2010. The pre-existing stock repurchase program, having a maximum total value of \$30 Million, was superseded and cancelled by the 2009 Program. 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 Notes 2 and 3 of the Notes to Consolidated Financial Statements appearing in the 2009 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 2009 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 "Quantitative And Qualitative Disclosures About Market Risk" in "Management's Discussion and Analysis" appearing in the 2009 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 21 through 42 and the report thereon of KPMG LLP, an independent registered public accounting firm, appearing on page 45 of the 2009 Annual Report.

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

Not Applicable.

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, 2009. 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 44 and 45, respectively, in the 2009 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, 2009 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 2010 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 2010 Proxy Statement is hereby incorporated by reference.

Information appearing under "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2010 Proxy Statement is hereby incorporated by reference.

The Company has adopted codes of ethics which apply to its chief executive officer, chief financial officer, principal accounting officer, controller 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. Direct your request for printed documents to Director of Investor Relations, ESCO Technologies Inc., 9900A Clayton Road, St. Louis, MO 63124.

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 2010 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 2010 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, 2009.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)
	(a)	(b)	(c)
Equity compensation plans approved by security holders (2)	1,192,180(3)	\$ 33.63(4)	1,625,053(5)(6)
Equity compensation plans not approved by security holders	0	N/A	196,778(7)
Total	1,192,180	\$ 33.63	1,821,831

- (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 a vested 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 a vested stock option up to one year 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 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 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 300,354 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 300,354 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 112,642 Common Shares under the 2001 Stock Incentive Plan and 1,512,411 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, 2009, 59,680 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 2010 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.

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 of the transaction 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 will 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 2010 Proxy Statement is hereby incorporated by reference.

PART IV**Item 15. Exhibits, Financial Statement Schedules**

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

1. The Consolidated Financial Statements of the Company on pages 21 through 42 and the Report of Independent Registered Public Accounting Firm thereon of KPMG LLP appearing on page 45 of the 2009 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
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]

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
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]

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
10.22	Form of Notice of Award—Performance— Accelerated Restricted Stock *	Incorporated by Reference, Exhibit 10.26[17]
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	2004 Incentive Compensation Plan*	Incorporated by Reference, Appendix B[18]
10.29	Summary of Non-Employee Directors' Compensation*	Incorporated by Reference, Exhibit 10.1[20]
10.30	Performance Compensation Plan Amended and Restated as of November 25, 2002*	Incorporated by Reference, Exhibit 10.2[20]
10.31	Awards to Executive Officers Not Reported on Form 8-K, October 4, 2004*	Incorporated by Reference, Exhibit 10.4[20]
10.32	Form of Notice of Award-Performance-Accelerated Restricted Stock under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.5[20]
10.33	Form of Incentive Stock Option Agreement under 2004 Incentive Compensation Plan*	Incorporated by Reference, Exhibit 10.6[20]
10.34	Form of Non-qualified Stock Option Agreement under 2004 Incentive Compensation Plan*	Incorporated by Reference, Exhibit 10.7[20]
10.35	Form of Incentive Stock Option Agreement under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.8[20]
10.36	Form of Non-qualified Stock Option Agreement under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.9[20]
10.37	Second Amendment to 2001 Stock Incentive Plan effective August 3, 2006*	Incorporated by Reference, Exhibit 10.39[22]
10.38	First Amendment to 2004 Incentive Compensation Plan effective August 3, 2006*	Incorporated by Reference, Exhibit 10.40[22]

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
10.39	Employment Agreement with C.J. Kretschmer effective October 1, 2006*	Incorporated by Reference, Exhibit 10.41[22]
10.40	Form of Exhibits (“Non-Compete” and “Change of Control”) to Option Agreements listed as 10.33 and 10.34, above*	Incorporated by Reference, Exhibit 10.42[24]
10.41	Third Amendment to Directors’ Extended Compensation Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.43[24]
10.42	Second Amendment to 2004 Incentive Compensation Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.44[24]
10.43	Third Amendment to 2001 Stock Incentive Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.45[24]
10.44	First Amendment to Incentive Compensation Plan for Executive Officers effective October 3, 2007*	Incorporated by Reference, Exhibit 10.46[24]
10.45	Amendment to 1999 Stock Option Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.47[24]
10.46	Amendment to Severance Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.48[24]
10.47	Amendment to Performance Compensation Plan effective October 3, 2007*	Incorporated by Reference, Exhibit 10.49[24]
10.48	Amendment to Compensation Plan for Non-Employee Directors effective October 3, 2007*	Incorporated by Reference, Exhibit 10.50[24]
10.49	Form of Notice of Award (2009) – Performance Accelerated Restricted Stock under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.51[29]
10.50	Third Amendment to Employment Agreement with V.L. Richey, Jr. * [25]	Incorporated by Reference, Exhibit 10.1[26]
10.51	Fourth Amendment to Employment Agreement with G.E. Muenster*	Incorporated by Reference, Exhibit 10.1[27]
10.52	Third Amendment to 2004 Incentive Compensation Plan effective October 1, 2007*	Incorporated by Reference, Appendix A[28]
10.53	Fourth Amendment to 2001 Stock Incentive Plan effective October 1, 2007*	Incorporated by Reference, Appendix B[28]
10.54	Amendment to 1999 Stock Option Plan effective October 1, 2007*	Incorporated by Reference, Appendix C[28]

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
10.55	Second Amendment to Incentive Compensation Plan for Executive Officers effective November 12, 2009*	
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2009:	
	§ Management's Discussion and Analysis (pgs. 10-20)	
	§ Consolidated Financial Statements (pgs. 21-42)	
	§ Management's Report on Internal Control over Financial Reporting (p. 44)	
	§ 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	
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.
- [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.
- [24] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at the Exhibit indicated.
- [25] Identical Amendments to Employment Agreements between ESCO and executive officers G.E. Muenster and A.S. Barclay, except that (i) the termination amounts payable under Paragraph 9.a(1) are equal to base salary for 12 months, and (ii) under Paragraph 9.a(1)(B), such termination amounts may be paid in biweekly installments equal to 1/26th of such amounts.
- [26] Incorporated by reference to Current Report on Form 8-K dated December 31, 2007, at the Exhibit indicated.
- [27] Incorporated by reference to Current Report on Form 8-K dated February 6, 2008, at the Exhibit indicated.

[28] Incorporated by reference to Notice of Annual Meeting of the Stockholders and Proxy Statement dated December 20, 2007, at the Appendix indicated.

[29] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2008, 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.

By (s) V.L. Richey, Jr.
V.L. Richey, Jr.
Chief Executive Officer

Dated: November 30, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on November 30, 2009, by the following persons on behalf of the registrant and in the capacities indicated.

SIGNATURE	TITLE
<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	Executive 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>
10.55	Second Amendment to Incentive Compensation Plan for Executive Officers
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2009: <ul style="list-style-type: none">• Management's Discussion and Analysis (pgs. 10-20)• Consolidated Financial Statements (pgs. 21-42)• Management's Report on Internal Control over Financial Reporting (p. 44)• 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
32	Certification of Chief Executive Officer and Chief Financial Officer
See Item 15(a)3 for a list of exhibits incorporated by reference.	

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

WHEREAS, ESCO Technologies Inc. ("Company") previously adopted the ESCO Technologies Inc. Incentive Compensation Plan for Executive Officers ("Plan"); and

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

WHEREAS, effective November 12, 2009, the Company desires to amend the Plan solely for the purpose of clarifying its compliance with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended ("Code") relating to the exception for performance based compensation;

NOW THEREFORE, effective November 12, 2009, the Plan is amended as follows:

1. Section VIII of the Plan is deleted in its entirety and replaced with the following:

VIII. VESTING.

A participating employee must (subject to specific Committee action to the contrary as hereinafter set forth in this Section VIII) be an employee of the Company on the date the award is payable pursuant to Section V hereof. The final determination as to Awards to be granted and if so, the amount of such Awards, shall be made by the Committee. Notwithstanding any other provision hereof, and in accordance with this Section VIII, in the event a participating employee who is a Covered Employee terminates or is terminated by the Company before or after the end of the Fiscal Year for any reason other than death, disability or Change in Control (as defined in Section 409A of the Internal Revenue Code of 1986, as amended), such participating employee shall not be entitled to receive any Award under this Plan for such Fiscal Year unless the Committee decides otherwise in its sole discretion to provide a pro rata payment adjusted to reflect the employee's participation during the Fiscal Year. In the event (i) a participating employee other than a Covered Employee, or (ii) a participating employee who is a Covered Employee and who terminates by reason of death, disability or Change in Control, terminates or is terminated by the Company before or after the end of the Fiscal Year for any reason, the Committee shall have the sole discretion as to whether any Award shall be paid. In either case, the Committee shall have the sole discretion as to the time such Award shall be paid, but not later than the date described in, and subject to any deferral election under, Section V. Any payment to a Covered Employee shall be subject to the provisions of Section IV, and in no event shall a participating employee who is a Covered Employee and whose employment terminates due to reasons other than death, disability or a Change in Control receive a pro-rata payment in the Committee's sole discretion under this Section VIII unless the applicable performance objectives have been met.

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 12th day of November, 2009 by the Human Resources and Compensation Committee of the Board of Directors of ESCO Technologies Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto. The years 2009, 2008 and 2007 represent the fiscal years ended September 30, 2009, 2008 and 2007, respectively, and are used throughout the document.

Introduction

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

- **USG:** Aclara Power-Line Systems Inc. (Aclara PLS), Aclara RF Systems Inc. (Aclara RF), Aclara Software Inc. (Aclara Software), and Doble Engineering Company (Doble),
- **Test:** EMC Group companies consisting primarily of ETS-Lindgren L.P. (ETS) and Lindgren R.F. Enclosures, Inc. (Lindgren), and
- **Filtration:** PTI Technologies Inc. (PTI), VACCO Industries (VACCO), and TekPackaging L.L.C. (TekPack).

USG: The Aclara Group 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. Aclara's STAR® Network system and TWACS® technology provide advanced radio-frequency (RF) and power-line (PLS) based fixed-network technologies proven to meet the wide-ranging data communications requirements of utilities worldwide. Aclara Software applications add value across the utility enterprise, addressing meter and energy data management, distribution planning and operations, customer service and revenue management. Doble provides high-end, intelligent diagnostic test solutions for the electric power delivery industry and is a leading supplier of partial discharge testing instruments used to assess the integrity of high voltage power delivery equipment.

Test: The EMC Group is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy.

Filtration: The companies within this segment design and manufacture specialty filtration products including hydraulic filter elements used in commercial aerospace applications, unique filter mechanisms used in micro propulsion devices for satellites and custom designed filters for manned and unmanned aircraft.

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 2009 Continuing Operations

- Sales, net earnings and diluted earnings per share were \$619.1 million, \$49.3 million and \$1.86 per share, respectively.
- Net cash provided by operating activities was \$77.5 million.
- At September 30, 2009, cash on hand was \$44.6 million; outstanding debt was \$180.5 million, for a net debt position of \$130.6 million (including acquisition escrow).
- Favorable settlement of uncertain tax positions in the fourth quarter positively affected EPS for the quarter and the full year by \$0.19, related to the disposition of a portion of the MicroSep business in 2004.
- The Company received \$80.0 million of orders in 2009 and recorded \$106.2 million in sales to Pacific Gas & Electric Company (PG&E) related to its AMI deployment.
- The Company received \$37.4 million in orders and recorded \$18.2 million in sales to New York City related to their fixed-network water AMI project.
- The Company received \$12.4 million in orders and recorded \$10.6 million in sales to Idaho Power Company for its Aclara PLS TWACS® AMI deployment.
- In September 2009, the Company acquired a minority equity interest in Firetide, Inc. and its technology will be used in Aclara's Smart Communications Network solution.

Dividends

Subsequent to September 30, 2009, the Company announced it will initiate a quarterly cash dividend payable at an annual rate of \$0.32 per share. The first quarterly dividend of \$0.08 per share will be paid on January 19, 2010 to stockholders of record as of January 4, 2010.

Results of Continuing Operations

NET SALES

(Dollars in millions)	Fiscal year ended			Change 2009 vs. 2008	Change 2008 vs. 2007
	2009	2008	2007		
USG	\$ 374.0	352.7	190.3	6.0%	85.3%
Test	138.4	144.8	141.5	(4.4)%	2.3%
Filtration	106.7	116.1	105.6	(8.1)%	9.9%
Total	\$ 619.1	613.6	437.4	0.9%	40.3%

USG

The 6.0% or \$21.3 million increase in net sales in 2009 as compared to the prior year was due to: a \$48.8 million increase in net sales from Aclara RF primarily due to higher gas product



MANAGEMENT'S DISCUSSION AND ANALYSIS

AMI deliveries at PG&E and the shipment of water AMI products for the New York City water project; a \$9.9 million increase in net sales from Doble reflecting the impact of a full twelve months of operations versus ten months in the prior year; a \$3.9 million increase in net sales at Aclara Software; partially offset by a \$41.3 million decrease in net sales at Aclara PLS.

The \$41.3 million decrease in Aclara PLS's net sales in 2009 compared to 2008 was mainly due to: a \$31.9 million decrease in sales to PG&E for the electric AMI deployment (2008 sales included \$31.3 million of revenue recognized that had been deferred from prior year periods), and an \$11.6 million decrease in sales to the Puerto Rico Electric Power Authority (PREPA), partially offset by a \$10.2 million increase in sales to Idaho Power Company.

The Company's total sales to PG&E were \$106.2 million in 2009 (representing approximately 17% of the Company's consolidated net sales) and \$110.2 million in 2008 (representing approximately 18% of the Company's consolidated net sales).

The 85.3% or \$162.4 million increase in net sales in 2008 as compared to 2007 was due to: the acquisition of Doble with sales of \$74.3 million; a \$55.4 million increase in sales from Aclara RF primarily due to higher gas and electric AMI deliveries at PG&E; and a \$31.7 million increase in sales from Aclara PLS.

The \$31.7 million increase in Aclara PLS's net sales in 2008 compared to 2007 was mainly due to: a \$34.0 million increase in sales to PG&E for the electric AMI deployment (due to the recognition of previously deferred revenue from the hardware, program management and software provided to PG&E), a \$16.8 million increase in sales to PREPA, partially offset by a \$18.4 million decrease in sales to other investor owned utilities (IOU) customers, such as Duke Energy and Oncor Electric.

Test

The net sales decrease of \$6.4 million or 4.4% in 2009 as compared to the prior year was mainly due to: a \$7.2 million decrease in net sales from the segment's European operations due to the timing of large chamber deliveries to the international wireless and electronics end-markets, a decrease in component shipments and unfavorable foreign currency impacts; and a \$3.2 million decrease in net sales from the segment's Asian operations due to a decrease in large chamber deliveries to the international wireless and electronics end-markets. This decrease was partially offset by a \$4.0 million increase in net sales from the segment's U.S. operations driven by the timing of domestic chamber deliveries.

The net sales increase of \$3.3 million or 2.3% in 2008 as compared to 2007 was mainly due to the timing of test chamber sales and sales of components resulting in: a \$5.2 million increase in net sales from the segment's European operations; a \$2.7 million increase in net sales from the segment's Asian operations; partially offset by a \$4.6 million decrease in net sales from the segment's U.S. operations.

Filtration

Net sales in 2009 decreased \$9.4 million or 8.1% compared to the prior year primarily due to: a \$12.4 million decrease in net sales at PTI due to lower commercial aerospace shipments; a \$2.1 million decrease in net sales at TekPack due to lower sales to commercial customers; partially offset by a \$5.1 million increase in net sales at VACCO driven by higher military/defense aircraft product shipments.

Net sales in 2008 increased \$10.5 million or 9.9% compared to the prior year primarily due to a \$5.5 million increase in commercial aerospace shipments at PTI and a \$3.5 million increase in net sales at VACCO driven by higher space product shipments.

PACIFIC GAS & ELECTRIC

In November 2005, Aclara RF entered into a contract (the "Aclara RF Contract") to provide equipment, software and services to PG&E in support of the gas utility portion of PG&E's AMI project. The total anticipated contract revenue from the gas portion of the Aclara RF Contract from commencement through the five-year full deployment is expected to be up to approximately \$225 million of which \$190 million has been recorded to date through September 30, 2009. The current outlook for 2010 PG&E gas product sales is expected to be approximately \$40 million as compared to \$98 million in 2009. Equipment is purchased only upon issuance of purchase orders and release authorizations, and PG&E continues to have the right to purchase products or services from other suppliers.

The Aclara RF Contract also provided PG&E the right to purchase an RF fixed-network electric product from Aclara RF. The Company has received \$11 million of orders to date through September 30, 2009 related to the electric portion of the Aclara RF Contract. During 2009, PG&E completed its evaluation and selection of a competing electric product and notified Aclara RF that no further electric product orders would be received. PG&E and Aclara RF are in the final stages of a settlement of certain claims raised by PG&E connected with delivery of the electric product. The Company does not expect the settlement will have an impact to the Company's earnings.

ORDERS AND BACKLOG

New orders received in 2009 were \$634.0 million, resulting in order backlog of \$299.4 million at September 30, 2009 as compared to order backlog of \$284.5 million at September 30, 2008. In 2009, the Company recorded \$363.2 million of new orders related to USG products, \$122.8 million related to Test products, and \$148.0 million related to Filtration products.

In 2008, the Company recorded \$365.3 million of new orders related to USG products (including \$7.0 million of Doble acquired backlog), \$154.5 million related to Test products, and \$113.2 million related to Filtration products.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company received orders for gas and electric AMI products totaling \$80.0 million, \$111.8 million and \$49.1 million from PG&E during 2009, 2008 and 2007, respectively. Cumulative-to-date orders from PG&E for the gas AMI deployment total 3.5 million units and \$199 million through September 30, 2009.

2009

Aclara RF received \$37.4 million in entered orders from the City of New York for its fixed-network AMI water project during 2009. Cumulative-to-date orders total 493,000 units and \$39.1 million through September 30, 2009.

In August 2009, VACCO received \$32.2 million in multi-year fluid flow product orders for the Navy's Virginia Class submarine.

In August 2009, TekPackaging LLC was awarded a five-year production contract with an initial purchase order received for \$11.7 million. The total value of purchase orders anticipated under this contract is between \$40 million to \$50 million.

Aclara PLS recorded \$12.4 million in entered orders from Idaho Power Company during 2009.

Aclara PLS recorded \$10.2 million and \$22.4 million in entered orders from PREPA during 2009 and 2008, respectively.

In March 2009, Aclara Software received an order for approximately \$5.0 million from the City of Tallahassee, Florida for a system-wide implementation of its Meter Data Management System (MDMS) and ENERGYprism® AMI software applications.

2008

In July 2008, ETS-Lindgren signed a \$16.7 million contract with the National Automotive Testing and R&D Infrastructure Project (NATRIP) in India to provide two automotive chambers.

In July 2008, Aclara RF was selected by the City of New York to provide its fixed-network AMI solution for the city's entire water service territory. The total value of purchase orders anticipated to be issued under this contract is \$68.3 million.

In July 2008, Aclara PLS's TWACS® AMI product was selected by Idaho Power Company for its entire electric service territory. The total value of purchase orders anticipated to be issued under this contract is \$25 million.

In December 2007, Aclara PLS signed a contract with PREPA for a total value of \$35 million for the purchase of Aclara PLS TWACS AMI products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (SG&A) were \$152.4 million, or 24.6% of net sales in 2009, \$147.3 million, or 24.0% of net sales in 2008, and \$108.2 million, or 24.7% of net sales in 2007.

The increase in SG&A expenses in 2009 as compared to the prior year was primarily due to a \$5.0 million increase related to Doble, reflecting a full year versus ten months in the prior year.

The increase in SG&A expenses in 2008 as compared to 2007 was primarily due to: \$24.8 million of SG&A expenses related to Doble and an approximately \$12.0 million increase in SG&A expenses related to Aclara mainly due to an increase in sales, marketing, and engineering head count.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets was \$19.2 million in 2009, \$17.0 million in 2008 and \$10.2 million in 2007. The Company recorded \$12.2 million and \$11.0 million in 2009 and 2008, respectively, related to Aclara PLS's TWACS NG capitalized software. Amortization of intangible assets included \$4.7 million and \$4.2 million of amortization of acquired intangible assets related to the Company's acquisitions in 2009 and 2008, respectively. The amortization of acquired intangible assets related to the Company's acquisitions is included in the Corporate operating segment's results. The remaining amortization expenses consist of other identifiable intangible assets (primarily software, patents and licenses). Effective in fiscal year 2010, the Company has re-evaluated the economic useful life of its TWACS NG capitalized software as a result of the successful acceptance in the international markets and concluded the remaining TWACS NG asset value of \$44 million has an expected remaining useful life of ten years (compared to its previous useful life of seven years).

OTHER EXPENSES, NET

Other expenses, net, were \$4.5 million, \$0.2 million and \$2.8 million in 2009, 2008 and 2007, respectively. The principal item included in other expenses, net, in 2009 consisted of \$2.3 million of facility exit/relocation charges incurred in connection with the move of the Aclara RF facility consisting of leasehold improvement write-offs, lease contract termination costs and physical move costs. There were no other individually significant items included in other expenses, net, in 2009 or 2008. Other expenses, net, in 2007 consisted primarily of: \$2.6 million of expenses within the Test segment related to an 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 \$0.6 million of royalty income.

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'S DISCUSSION AND ANALYSIS

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.

EBIT

(Dollars in millions)	Fiscal year ended			Change	Change
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
USG	\$ 62.5	66.6	22.6	(6.2)%	194.7%
% of net sales	16.7%	18.9%	11.9%	(2.2)%	7.0%
Test	14.1	13.9	14.4	1.4%	(3.5)%
% of net sales	10.2%	9.6%	10.2%	0.6%	(0.6)%
Filtration	18.1	21.2	18.4	(14.6)%	15.2%
% of net sales	17.0%	18.3%	17.4%	(1.3)%	0.8%
Corporate	(24.1)	(20.6)	(17.4)	17.0%	18.4%
Total	\$ 70.6	81.1	38.0	(12.9)%	113.4%
% of net sales	11.4%	13.2%	8.7%	(1.8)%	4.5%

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

(Dollars in millions)	2009	2008	2007
EBIT	\$ 70.6	81.1	38.0
Less: Interest expense	(7.4)	(9.8)	—
Add: Interest income	—	—	0.7
Less: Income taxes	(13.9)	(23.7)	(7.9)
Net earnings from continuing operations	\$ 49.3	47.6	30.8

USG

The \$4.1 million decrease in EBIT in 2009 as compared to 2008 was due to: a decrease in EBIT from the Aclara Group due to lower margins on product sales, a \$2.3 million charge related to the Aclara RF facility relocation, mentioned in other expenses, net, above and an increase in amortization for the TWACS NG capitalized software. Additionally, 2008 included \$15.0 million of EBIT associated with the PG&E/Aclara PLS deferred revenue recognized in 2008.

The \$44.0 million increase in EBIT in 2008 as compared to 2007 was due to: the EBIT contribution from Doble; and an increase in EBIT from Aclara related to the increased sales volumes.

Test

The \$0.2 million increase in EBIT in 2009 as compared to the prior year was due to a reduction of the segment's SG&A expenses.

The \$0.5 million decrease in EBIT in 2008 as compared to the prior year was mainly due to: a decrease in EBIT from the Company's U.S. operations due to changes in product mix and \$0.9 million of non-recurring costs associated with the facility consolidation in Austin, Texas that was completed in January 2008; partially offset by a \$1.2 million increase in EBIT from the Company's European and Asian operations related to the increased sales volumes.

Filtration

EBIT decreased \$3.1 million in 2009 as compared to 2008 due to: lower commercial aerospace shipments at PTI; and an increase in research and development costs and higher bid and proposal costs incurred in the pursuit of a significant number of Space related projects at VACCO.

EBIT increased \$2.8 million in 2008 as compared to 2007 mainly due to: higher commercial aerospace shipments at PTI; and an increase at TekPack due to higher commercial product shipments.

Corporate

Corporate operating charges included in consolidated EBIT increased by \$3.5 million in 2009 as compared to 2008 primarily due to: a \$0.9 million increase in share-based compensation expense; and a \$0.5 million increase in amortization of acquired intangible assets.

Corporate operating charges included in consolidated EBIT increased by \$3.2 million in 2008 as compared to 2007 mainly due to: a \$2.1 million increase in amortization of acquired intangible assets primarily due to the 2008 acquisition of Doble and a \$0.6 million decrease in royalty income.

The "Reconciliation to Consolidated Totals (Corporate)" in Note 15 to the Consolidated Financial Statements represents Corporate office operating charges.

INTEREST EXPENSE (INCOME), NET

Interest expense was \$7.4 million in 2009 compared to interest expense of \$9.8 million in 2008 and interest income of \$0.7 million in 2007, respectively. The decrease in interest expense in 2009 as compared to 2008 was due to favorable interest rates and lower outstanding borrowings under the revolving credit facility. The increase in interest expense in 2008 as compared to 2007 was due to the outstanding borrowings under the revolving credit facility related to the Doble acquisition.

INCOME TAX EXPENSE

The 2009 effective tax rate from continuing operations was 22.0% compared to 33.3% in 2008 and 20.3% in 2007. The decrease in the 2009 effective tax rate as compared to the prior year was due primarily to the decrease in uncertain tax positions (tax liabilities) for the fiscal years 2003 through 2007, of which \$3.5 million or 5.5% is the result of the closing of a U.S. taxing authority's examination of the Company's research

credit claims; and \$5.0 million or 7.9% is the result of the confirmation of the Company's tax position for the deduction of losses realized on the disposition

MANAGEMENT'S DISCUSSION AND ANALYSIS

of a portion of the MicroSep business in 2004. The overall decrease in uncertain tax positions reduced 2009 income tax expense by \$8.6 million and the effective tax rate by 13.6%; the impact of an export incentive reduced 2008 income tax expense by \$1.6 million and the effective tax rate by 2.2%.

The increase in the 2008 effective tax rate as compared to 2007 was due to lower tax credits in 2008 as compared to 2007. The research tax credit reduced 2008 income tax expense by \$1.0 million and the effective tax rate by 1.4%; the impact of an export incentive reduced 2008 income tax expense by \$1.6 million and the effective tax rate by 2.2%; the impact of the domestic production deduction reduced 2008 income tax expense by \$0.8 million and the effective tax rate by 1.1%. The research tax credit reduced 2007 income tax expense by \$4.4 million and the 2007 effective tax rate by 11.4% as a result of the cumulative effect of research credits for years 2006 and 2007 being realized.

Capital Resources and Liquidity

Working capital from continuing operations (current assets less current liabilities) increased to \$116.2 million at September 30, 2009 from \$100.6 million at September 30, 2008.

The \$26.1 million decrease in accounts receivable at September 30, 2009 is mainly due to: approximately \$13.0 million related to the Test segment and approximately \$9.0 million related to the USG segment, both driven by timing and volume of sales and increased cash collections. The \$17.0 million increase in inventories at September 30, 2009 is mainly due to an increase of \$15.0 million in the USG segment inventories to shorten lead times.

Net cash provided by operating activities from continuing operations was \$77.5 million, \$77.1 million and \$45.2 million in 2009, 2008 and 2007, respectively. The increase in 2008 as compared to 2007 is related to an increase in pretax earnings and improvements in operating working capital requirements.

Capital expenditures from continuing operations were \$9.3 million, \$16.7 million and \$12.4 million in 2009, 2008 and 2007, respectively. The decrease in 2009 as compared to 2008 was primarily due to the ETS Austin, TX facility expansion that occurred during 2008 within the Test segment and a decrease in facility expansion costs at Aclara PLS. There were no commitments outstanding that were considered material for capital expenditures at September 30, 2009.

DIVESTITURES

On March 13, 2009, the Company completed the sale of the business and most of the assets of Comtrak for \$3.1 million, net, of cash. This business is reflected as a discontinued operation in the financial statements and related notes for all periods presented. Comtrak's operations were previously included within the Company's Utility Solutions Group segment. A pretax loss of \$1.2 million related to the sale and its 2009 results of operations are reflected in the Company's fiscal 2009 results in discontinued operations.

On November 25, 2007, the Company completed the sale of the filtration portion of Filtertek Inc. (Filtertek) to Illinois Tool Works Inc. for \$74.4 million, net. The TekPack division of Filtertek was not included in the transaction. The Filtertek businesses are accounted for as discontinued operations in the financial statements and related notes for all periods presented. A pretax loss of \$0.2 million related to Filtertek is reflected in the Company's fiscal 2008 results in discontinued operations. Filtertek's operations were included within the Company's Filtration segment prior to divestiture. The operations of the TekPack business are reflected in continuing operations and continue to be included in the Filtration segment.

ACQUISITIONS

2009

On September 21, 2009, the Company acquired a minority interest in Firetide, Inc. for \$4 million in cash. Firetide, Inc. is a provider of wireless infrastructure mesh network management systems which will enable communications with other Smart Grid assets and this technology will be used in Aclara's Smart Communications Network solution. This investment is accounted for under the cost method and is classified as a long-term other asset on the Company's consolidated balance sheet as of September 30, 2009.

On July 2, 2009, the Company acquired certain assets of Complus Systems Pvt Ltd. (Complus) in India for approximately \$1.2 million in cash and formed a new Indian entity. The entity will operate as ETS-India and its operating results, since the date of acquisition, are included within the Test segment.

2008

On November 30, 2007, the Company acquired the capital stock of Doble for a purchase price of approximately \$328 million, net of cash acquired. Doble, headquartered in Watertown, Massachusetts, is a worldwide leader in providing high-end intelligent diagnostic test solutions for the electric utility industry. The acquisition aligns with the Company's long-term growth strategy of expanding its products and services in the utility industry. The operating results for Doble, since the date of acquisition, are included within the USG segment.

On July 31, 2008, the Company acquired the capital stock of LDIC GmbH and LDIC AG (collectively "LDIC") for a purchase price of approximately \$13 million, net of cash acquired. LDIC, with operations in Germany and Switzerland, is a manufacturer of partial

MANAGEMENT'S DISCUSSION AND ANALYSIS

discharge diagnostic testing instruments and systems serving the international electric utility industry. The operating results for LDIC, since the date of acquisition, are included within Doble in the USG segment.

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.

BANK CREDIT FACILITY

At September 30, 2009, the Company had approximately \$193 million available to borrow comprised of: approximately \$143 million available under its credit facility, plus a \$50 million increase option, in addition to \$44.6 million cash on hand. At September 30, 2009, the Company had outstanding borrowings of \$180.5 million, and outstanding letters of credit of \$7.2 million. The Company classified \$50 million as the current portion on long-term debt as of September 30, 2009, as the Company intends to repay this amount within the next twelve months; however, the Company has no contractual obligation to repay such amount during the next twelve months. As of September 30, 2009, 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.

The credit facility requires, as determined by certain financial ratios, a facility fee ranging from 15 to 25 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 a leverage ratio and an interest coverage ratio.

OUTLOOK — 2010

During 2010, the Company anticipates gas AMI product deliveries to PG&E will be significantly lower than the quantities delivered in 2009 as the contract is entering the latter stages of deployment. The current outlook for 2010 PG&E gas product sales is expected to be approximately \$40 million as compared to \$98 million in 2009. As a result, Management expects 2010 consolidated revenues to decrease approximately three to five percent and EBIT to decline marginally compared to 2009. In addition, the 2010 effective tax rate is projected to be approximately 38%. Given the PG&E project wind-down and higher effective tax rate, Management expects EPS to be lower in 2010 as compared to 2009. On a quarterly basis, the Company expects 2010 revenues and EPS to be heavily "second half" weighted as they were in 2009 and 2008.

CONTRACTUAL OBLIGATIONS

The following table shows the Company's contractual obligations as of September 30, 2009:

(Dollars in millions)

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	\$ 180.5	50.0	—	130.5	—
Estimated Interest Payments(1)	5.6	2.7	2.9	—	—
Operating Lease Obligations	29.6	7.4	11.8	5.2	5.2
Purchase Obligations(2)	—	—	—	—	—
Total	\$ 215.7	60.1	14.7	135.7	5.2

(1) Estimated interest payments for the Company's debt obligations were calculated based on Management's determination of the estimated applicable interest rates and payment dates.

(2) A purchase obligation is defined as a legally binding and enforceable agreement to purchase goods and services that specifies all significant terms. Since the Company's purchase orders can be cancelled, they are not included in the table above.

As of September 30, 2009, the Company had \$3.3 million of liabilities for uncertain tax positions. The unrecognized tax benefits have been excluded from the table above due to uncertainty as to the amounts and timing of settlement with taxing authorities.

The Company has no off balance sheet arrangements outstanding at September 30, 2009.

SHARE REPURCHASES

In August 2009, the Company's Board of Directors extended its previously authorized open market common stock repurchase program of the Company's shares at a value not to exceed \$30 million, subject to market conditions and other factors which covers the period through September 30, 2010. There were no stock repurchases during 2009 or 2008. The Company repurchased \$10 million or 265,000 shares in 2007 under a previously authorized program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PENSION FUNDING REQUIREMENTS

The minimum cash funding requirements related to the Company's defined benefit pension plans are approximately \$1.3 million in 2010, approximately \$3.0 million in 2011 and approximately \$3.5 million in 2012.

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.

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. The Company is exposed to market risk related to changes in interest rates and selectively uses derivative financial instruments, including forward contracts and swaps, to manage these risks. During 2009, the Company entered into two \$40 million one-year forward interest rate swaps effective October 5, 2009, to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. In addition, during 2008, the Company entered into a two-year amortizing interest rate swap to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. The swap notional amount for the first year was \$175 million amortizing to \$100 million in the second year. All derivative instruments are reported on the balance sheet at fair value. The derivative instrument is designated as a cash flow hedge and the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. Based on the interest rate swaps outstanding, the interest rates on approximately 50% of the Company's total borrowings were effectively fixed as of September 30, 2009. The following is a summary of the notional transaction amounts and fair values for the Company's outstanding derivative financial instruments by risk category and instrument type, as of September 30, 2009.

(Dollars in thousands)	Notional Amount	Average Rec Rate	Average Pay Rate	Fair Value
Interest rate swap	\$ 100,000	0.31%	3.99%	\$ (685)
Interest rate swaps*	\$ 80,000	N/A	1.52%	\$ (778)

* These swaps represent forward-starting swaps and will be effective in October 2009.

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 \$110.7 million, \$130.9 million, and \$85.5 million in 2009, 2008 and 2007, 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, 2009 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 Consolidated 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

USG Segment: Within the USG segment, approximately 96% of the segment's revenue arrangements (approximately 60% of consolidated revenues) contain software components. Revenue under these arrangements is recognized in accordance with FASB ASC Subtopic 985-605, *Software — Revenue Recognition*. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 4% of the segment's revenues represent products sold under a single element arrangement and are recognized when services are performed for unaffiliated customers or when products are delivered (when title and risk of ownership transfers).

Test Segment: Within the Test segment, approximately 40% of revenues (approximately 10% 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 FASB ASC Subtopic 605-25, *Revenue Recognition: Multiple-Element Arrangements*. The application of the applicable guidance 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 60% of the segment's revenues (approximately 15% of consolidated revenues) are recorded under the percentage-of-completion provisions of FASB ASC Subtopic 605-35, *Revenue Recognition: Construction-Type and 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.

Filtration Segment: Within the Filtration segment, approximately 60% of segment revenues (approximately 10% 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 40% of segment revenues (approximately 5% of consolidated revenues) are recorded under the percentage-of-completion provisions of FASB ASC Subtopic 605-35, *Revenue Recognition: Construction-Type and 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 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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 FASB ASC Topic 740, *Income Taxes* (ASC 740). The Company has recorded an accrual that reflects the recognition and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return based upon ASC 740. Additional future income tax expense or benefit may be recognized once the positions are effectively settled. It is the Company's policy to follow FASB ASC 740-10-45-20 and record the tax effects of changes in the opening balance of unrecognized tax benefits in net earnings from continuing operations.

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 if such determination is made.

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 FASB ASC Topic 350, *Intangibles — Goodwill and Other* (ASC 350), 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. At September 30, 2009, the Company has determined that no reporting units are at risk of material goodwill impairment. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed annually for impairment.

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 2010, the Company could be required to record a charge to equity. In addition, if the discount rate was decreased by 25 basis points from 5.5% to 5.25%, the projected benefit obligation for the defined benefit plan would increase by approximately \$2.1 million and result in an additional after-tax charge to shareholders' equity of approximately \$1.3 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 400 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 otherwise are not likely to have a material adverse effect on its financial condition or results of operation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. The Company is exposed to market risk related to changes in interest rates and selectively uses derivative financial instruments, including forward contracts and swaps, to manage these risks. During 2009, the Company entered into two \$40 million one-year forward interest rate swaps effective October 5, 2009, to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. In addition, during 2008, the Company entered into a two-year amortizing interest rate swap to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. The swap notional amount for the first year was \$175 million amortizing to \$100 million in the second year. All derivative instruments are reported on the balance sheet at fair value. The derivative instrument is designated as a cash flow hedge and the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. 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, the Company's internal control over financial reporting.

New Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13) and Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements* (ASU 2009-14) — *consensuses of the FASB Emerging Issues Task Force*. ASU 2009-13 applies to multiple-deliverable revenue arrangements that are currently within the scope of Subtopic 605-25 and provides two significant changes: (i) requires an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price and (ii) eliminates the residual method to allocate the arrangement consideration. The consensus also expands the disclosure requirements for multiple-deliverable revenue arrangements. ASU 2009-14 removes tangible products from the scope of the software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are within the scope of the software revenue guidance. These consensuses should be applied on a prospective basis for revenue arrangements entered into in fiscal years beginning on or after June 15, 2010 with earlier application permitted. The Company is currently assessing the impact of this new guidance on its Consolidated Financial Statements and related disclosures.

On July 1, 2009, the Company adopted FASB ASC 105-10 (ASC 105-10) which established the *FASB Accounting Standards Codification* (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of Federal securities laws are also sources of authoritative GAAP for nongovernmental entities. The adoption of this Statement did not have a material impact on the Company's Consolidated Financial Statements.

Effective April 1, 2009, the Company adopted the new accounting guidance for subsequent events as codified in FASB ASC 855, *Subsequent Events*. The new guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This new guidance was effective for interim and annual financial periods ending after June 15, 2009. The Company has evaluated subsequent events or transactions that occurred after the balance sheet date of September 30, 2009 up through November 30, 2009, which is the date the accompanying Consolidated Financial Statements were issued.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2010 revenues, EBIT, EPS, adequacy of the Company's credit facilities and future cash flows, estimates of anticipated contract costs and revenues, the anticipated total value of the Aclara RF Contract with PG&E and with the City of New York, the anticipated total value of Aclara PLS's contract with Idaho Power Company, the anticipated total value of TekPackaging's recently received five year production contract, the outcome of current litigation, claims and charges, the anticipated timing and amount of lost deferred tax assets, continued reinvestment of foreign earnings, the timing, total value and period of performance of contracts awarded to the Company, the accuracy of the Company's estimates utilized in software revenue recognition, the accuracy of the Company's estimates utilized to project costs at completion in the Test segment and Filtration segment, income tax liabilities, the effective tax rate, the amount, timing and ability to use net research tax credits, the timing and amount of the reduction of unrecognized tax benefits, repayment of debt within the next twelve months, the recognition of costs related to share-based compensation arrangements, 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), 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 year ended September 30, 2009 and the following: the timing and content of purchase order releases under the PG&E contract; 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; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; 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,

	2009	2008	2007
Net sales	\$619,064	613,566	437,375
Costs and expenses:			
Cost of sales	372,351	367,951	278,108
Selling, general and administrative expenses	152,397	147,324	108,207
Amortization of intangible assets	19,214	17,044	10,243
Interest expense (income), net	7,450	9,808	(677)
Other expenses, net	4,480	161	2,834
Total costs and expenses	555,892	542,288	398,715
Earnings before income tax	63,172	71,278	38,660
Income tax expense	13,867	23,709	7,854
Net earnings from continuing operations	\$ 49,305	47,569	30,806
Earnings (loss) from discontinued operations, net of tax of \$568 in 2009, \$229 in 2008 and \$1,161 in 2007	135	(282)	2,907
Loss on sale of discontinued operations, net of tax of \$905 in 2009, \$157 in 2008	(32)	(576)	—
Net earnings (loss) from discontinued operations	103	(858)	2,907
Net earnings	\$ 49,408	46,711	33,713
Earnings (loss) per share:			
Basic:			
Continuing operations	\$ 1.88	1.84	1.19
Discontinued operations	—	(0.04)	0.11
Net earnings	\$ 1.88	1.80	1.30
Diluted:			
Continuing operations	1.86	1.81	1.17
Discontinued operations	—	(0.03)	0.11
Net earnings	\$ 1.86	1.78	1.28
Average common shares outstanding (in thousands):			
Basic	26,216	25,909	25,865
Diluted	26,560	26,315	26,387

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)
Years ended September 30,

2009

2008

ASSETS

Current assets:

Cash and cash equivalents	\$ 44,630	28,667
Accounts receivable, less allowance for doubtful accounts of \$1,457 and \$1,050 in 2009 and 2008, respectively	108,620	134,710
Costs and estimated earnings on long-term contracts, less progress billings of \$19,861 and \$34,978 in 2009 and 2008, respectively	10,758	9,095
Inventories	82,020	65,019
Current portion of deferred tax assets	20,417	15,368
Other current assets	13,750	14,888
Current assets from discontinued operations	—	2,889
Total current assets	280,195	270,636

Property, plant and equipment:

Land and land improvements	4,996	5,342
Buildings and leasehold improvements	49,181	47,829
Machinery and equipment	71,773	63,995
Construction in progress	2,290	2,344
	128,240	119,510
Less accumulated depreciation and amortization	58,697	47,157
Net property, plant and equipment	69,543	72,353
Goodwill	330,719	328,878
Intangible assets, net	221,600	236,192
Other assets	21,630	17,665
Other assets from discontinued operations	—	2,349
	\$923,687	928,073

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)
Years ended September 30,

2009

2008

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current maturities of long-term debt	\$ 50,000	50,000
Accounts payable	47,218	48,982
Advance payments on long-term contracts, less costs incurred of \$17,484 and \$7,880 in 2009 and 2008, respectively	2,840	7,467
Accrued salaries	20,465	20,409
Current portion of deferred revenue	20,215	18,226
Accrued other expenses	23,247	22,058
Current liabilities from discontinued operations	—	1,541
Total current liabilities	163,985	168,683
Pension obligations	27,483	12,172
Deferred tax liabilities	78,471	83,515
Other liabilities	5,941	11,816
Long-term debt	130,467	183,650
Total liabilities	406,347	459,836

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 29,771,103 and 29,465,154 shares in 2009 and 2008, respectively	298	295
Additional paid-in capital	265,794	254,240
Retained earnings	322,878	273,470
Accumulated other comprehensive (loss) income, net of tax	(11,598)	556
	577,372	528,561
Less treasury stock, at cost (3,357,046 and 3,375,106 common shares in 2009 and 2008, respectively)	(60,032)	(60,324)
Total shareholders' equity	517,340	468,237
	\$923,687	928,073

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
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
Comprehensive income:							
Net earnings	—	—	—	46,711	—	—	46,711
Translation adjustments	—	—	—	—	(869)	—	(869)
Net unrecognized actuarial loss, net of tax of \$2,506	—	—	—	—	(4,043)	—	(4,043)
Interest rate swap, net of tax of \$512	—	—	—	—	(835)	—	(835)
Comprehensive income							40,964
Stock options and stock compensation plans, net of tax benefit of \$(845)	305	3	11,109	—	—	678	11,790
Balance, September 30, 2008	29,465	295	254,240	273,470	556	(60,324)	468,237
Comprehensive income:							
Net earnings	—	—	—	49,408	—	—	49,408
Translation adjustments	—	—	—	—	(707)	—	(707)
Net unrecognized actuarial loss, net of tax of \$7,488	—	—	—	—	(11,393)	—	(11,393)
Interest rate swap, net of tax of \$62	—	—	—	—	(54)	—	(54)
Comprehensive income							37,254
Stock options and stock compensation plans, net of tax benefit of \$(325)	306	3	11,554	—	—	292	11,849
Balance, September 30, 2009	29,771	\$ 298	265,794	322,878	(11,598)	(60,032)	517,340

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)
Years ended September 30,

	2009	2008	2007
Cash flows from operating activities:			
Net earnings	\$ 49,408	46,711	33,713
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net (earnings) loss from discontinued operations, net of tax	(103)	858	(2,907)
Depreciation and amortization	30,267	27,067	16,308
Stock compensation expense	4,866	3,990	4,834
Changes in current assets and liabilities	1,566	(12,154)	(26,384)
Effect of deferred taxes on tax provision	(2,543)	12,349	13,759
Change in deferred revenue and costs, net	1,781	(3,284)	9,339
Pension contributions	(1,997)	(531)	—
Change in uncertain tax positions	(5,700)	2,335	(1,281)
Other	(71)	(270)	(2,158)
Net cash provided by operating activities — continuing operations	77,474	77,071	45,223
Net earnings (loss) from discontinued operations, net of tax	103	(858)	2,907
Net cash provided (used) by discontinued operations	39	673	(5,564)
Net cash provided (used) by operating activities — discontinued operations	142	(185)	(2,657)
Net cash provided by operating activities	77,616	76,886	42,566
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(6,442)	(345,395)	(8,250)
Proceeds from sale of marketable securities	—	4,966	—
Change in restricted cash (acquisition escrow)	2,189	(6,841)	—
Capital expenditures	(9,255)	(16,669)	(12,408)
Additions to capitalized software	(5,004)	(10,488)	(28,555)
Net cash used by investing activities — continuing operations	(18,512)	(374,427)	(49,213)
Capital expenditures — discontinued operations	—	(1,140)	(7,095)
Proceeds from divestiture of business, net — discontinued operations	3,100	74,370	—
Net cash provided (used) by investing activities — discontinued operations	3,100	73,230	(7,095)
Net cash used by investing activities	(15,412)	(301,197)	(56,308)
Cash flows from financing activities:			
Proceeds from long-term debt	32,000	304,157	—
Principal payments on long-term debt	(85,183)	(71,197)	—
Debt issuance costs	—	(2,965)	—
Net (decrease) increase in short-term borrowings — discontinued operations	—	(2,844)	2,844
Purchases of common stock into treasury	—	—	(10,007)
Excess tax benefit from stock options exercised	782	737	73
Proceeds from exercise of stock options	6,621	6,384	1,843
Other	247	338	(173)
Net cash (used) provided by financing activities	(45,533)	234,610	(5,420)
Effect of exchange rate changes on cash and cash equivalents	(708)	(270)	981
Net increase (decrease) in cash and cash equivalents	15,963	10,029	(18,181)
Cash and cash equivalents at beginning of year	28,667	18,638	36,819
Cash and cash equivalents at end of year	\$ 44,630	28,667	18,638
Changes in current assets and liabilities:			
Accounts receivable, net	\$ 26,090	(32,688)	(15,424)
Costs and estimated earnings on long-term contracts, net	(1,663)	2,425	(10,175)
Inventories	(17,001)	443	(12,007)
Other current assets	(714)	4,777	(4,926)
Accounts payable	(1,764)	1,163	13,050
Advance payments on long-term contracts, net	(4,627)	3,716	(3,959)
Accrued expenses	1,245	8,010	7,057
	\$ 1,566	(12,154)	(26,384)
Supplemental cash flow information:			
Interest paid	\$ 7,425	9,233	109
Income taxes paid (including state, foreign & AMT)	22,144	7,004	3,731

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.

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, 2009 and 2008.

The business and most of the assets of Comtrak Technologies, LLC (Comtrak) were sold during the second quarter of fiscal 2009. In addition, the Filtrertek businesses (excluding TekPackaging LLC) were sold during fiscal 2008. Comtrak and Filtrertek are accounted for as discontinued operations in accordance with accounting principles generally accepted in the United States of America (GAAP).

C. NATURE OF OPERATIONS

The Company has three reportable segments: Utility Solutions Group (USG), RF Shielding and Test (Test), and Filtration/Fluid Flow (Filtration).

USG: The Aclara Group 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. Doble provides high-end, intelligent, diagnostic test solutions for the electric power delivery industry.

Test: The EMC Group is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy.

Filtration: The companies within this segment design and manufacture specialty filtration products including hydraulic filter elements used in commercial aerospace applications, unique filter mechanisms used in micro propulsion devices for satellites and custom designed filters for manned and unmanned aircraft.

D. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company regularly evaluates the estimates and assumptions related to the allowance for doubtful trade receivables, inventory obsolescence, warranty reserves, value of equity-based awards, goodwill and purchased intangible asset valuations, asset impairments, employee benefit plan liabilities, income tax liabilities and assets and related valuation allowances, uncertain tax positions, and litigation and other loss contingencies. Actual results could differ from those estimates.

E. REVENUE RECOGNITION

USG Segment: Within the USG segment, approximately 96% of the segment's revenue arrangements (approximately 60% of consolidated revenues) contain software components. Revenue under these arrangements is recognized in accordance with FASB ASC Subtopic 985-605, *Software — Revenue Recognition*. The segment's software revenue arrangements within the Aclara Group 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The applicable guidance 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.

Approximately 4% of segment revenues are recognized when services are performed for unaffiliated customers or when products are delivered (when title and risk of ownership transfers).

Test Segment: Within the Test segment, approximately 40% of revenues (approximately 10% 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 FASB ASC Subtopic 605-25, *Revenue Recognition: Multiple-Element Arrangements*. 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, and 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 60% of the segment's revenues (approximately 15% of consolidated revenues) are recorded under the percentage-of-completion provisions of FASB ASC Subtopic 605-35, *Revenue Recognition: Construction-Type and Production-Type Contracts* due to the complex nature of the enclosures that are designed and produced under these contracts. Products accounted for under this Subtopic 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 this Subtopic, 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 10% of Test segment 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.

Filtration Segment: Within the Filtration segment, approximately 60% of revenues (approximately 10% 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 40% of segment revenues (approximately 5% of consolidated revenues) are recorded under the percentage-of-completion provisions of FASB ASC Subtopic 605-35, *Revenue Recognition: Construction-Type and Production-Type Contracts*. Products accounted for under this Subtopic 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 this Subtopic, 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.

F. CASH AND CASH EQUIVALENTS

Cash equivalents include temporary investments that are readily convertible into cash, such as money market funds.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 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, 3-10 years; and office furniture and equipment, 3-10 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 FASB ASC Topic 350, *Intangibles — Goodwill & Other*. 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 FASB ASC Topic 985, *Software*. Capitalized costs 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. Management annually reviews the carrying values of capitalized costs for impairment or whenever events or changes in circumstances indicate the carrying amount 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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.

P. FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign operations are translated into U.S. dollars in accordance with FASB ASC Topic 830, *Foreign Currency Matters*. 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)	2009	2008	2007
Weighted Average Shares Outstanding — Basic	26,216	25,909	25,865
Dilutive Options and Performance-Accelerated Restricted Stock	344	406	522
Adjusted Shares — Diluted	26,560	26,315	26,387

Options to purchase 605,186 shares at prices ranging from \$35.69-\$54.88 were outstanding during the year ended September 30, 2009, 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 542,689 shares at prices ranging from \$35.69-\$54.88 were outstanding during the year ended September 30, 2008, 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 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. These options expire in various periods through 2013. Approximately 180,000, 140,000 and 76,000 restricted shares were outstanding but unearned at September 30, 2009, 2008 and 2007, respectively, and, therefore, were not included in the respective years' computations of diluted EPS.

R. 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.

S. COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive loss of \$(11.6) million at September 30, 2009 as shown on the consolidated balance sheet, net of tax, consisted of \$(17.9) million related to a pension net actuarial loss; \$7.2 million related to currency translation adjustments; and \$(0.9) million related to interest rate swaps. Accumulated other comprehensive income of \$0.6 million at September 30, 2008 consisted of \$7.9 million related to currency translation adjustments; \$(6.5) million related to the pension net actuarial loss; and \$(0.8) million related to interest rate swaps.

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.

U. DERIVATIVE FINANCIAL INSTRUMENTS

All derivative financial instruments are reported on the balance sheet at fair value. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as a hedge and on the type of hedge. For each derivative instrument designated as a cash flow hedge, the effective portion of the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. For each derivative instrument designated as a fair value hedge, the gain or loss on the derivative and the offsetting gain or loss on the hedged item are recognized immediately in earnings. Regardless of type, a fully effective hedge will result in no net earnings impact while the derivative is outstanding. To the extent that any hedge is ineffective at offsetting cash flow or fair value changes in the underlying hedged item, there could be a net earnings impact.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

V. NEW ACCOUNTING STANDARDS

In October 2009, the Financial Accounting Standards Board (FASB) issued Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13) and Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements* (ASU 2009-14) — *consensuses of the FASB Emerging Issues Task Force*. ASU 2009-13 applies to multiple-deliverable revenue arrangements that are currently within the scope of Subtopic 605-25 and provides two significant changes: (i) requires an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price and (ii) eliminates the residual method to allocate the arrangement consideration. The consensus also expands the disclosure requirements for multiple-deliverable revenue arrangements. ASU 2009-14 removes tangible products from the scope of the software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are within the scope of the software revenue guidance. These consensuses should be applied on a prospective basis for revenue arrangements entered into in fiscal years beginning on or after June 15, 2010 with earlier application permitted. The Company is currently assessing the impact of this new guidance on its Consolidated Financial Statements and related disclosures.

On July 1, 2009, the Company adopted FASB ASC 105-10 (ASC 105-10) which established the *FASB Accounting Standards Codification* (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of Federal securities laws are also sources of authoritative GAAP for nongovernmental entities. The adoption of this Statement did not have a material impact on the Company's Consolidated Financial Statements.

Effective April 1, 2009, the Company adopted the new accounting guidance for subsequent events as codified in FASB ASC 855, *Subsequent Events*. The new guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This new guidance was effective for interim and annual financial periods ending after June 15, 2009. The Company has evaluated subsequent events or transactions that occurred after the balance sheet date of September 30, 2009 up through November 30, 2009, which is the date the accompanying Consolidated Financial Statements were issued.

2. Divestitures

On March 13, 2009, the Company completed the sale of the business and most of the assets of Comtrak Technologies, LLC (Comtrak) for \$3.1 million, net, of cash (referred to as the "Comtrak sale"). This business is reflected as a discontinued operation in the financial statements and related notes for all periods presented. Comtrak's operations were previously included within the Company's Utility Solutions Group segment. A pretax loss of \$1.2 million related to the sale and its 2009 results of operations are reflected in the Company's fiscal 2009 results in discontinued operations. Comtrak's net sales were \$3.4 million, \$10.3 million, and \$7.3 million for the years ended September 30, 2009, 2008 and 2007, respectively. The pretax loss from Comtrak's operations was \$0.3 million and \$0.6 million for the years ended September 30, 2008 and 2007, respectively.

On November 25, 2007, the Company completed the sale of the filtration portion of Filtertek Inc. (Filtertek) to Illinois Tool Works Inc. for \$74.4 million, net. The TekPack division of Filtertek was not included in the transaction. Accordingly, the Filtertek businesses are reflected as discontinued operations in the financial statements and related notes for all periods presented. A pretax loss of \$0.2 million related to Filtertek is reflected in the Company's fiscal 2008 results in discontinued operations. Filtertek's net sales were \$13.7 million for the two-month period ended November 25, 2007. Filtertek's net sales and pretax earnings were \$82.8 million and \$4.7 million, respectively, for the year ended September 30, 2007. Filtertek's operations were included within the Company's Filtration segment prior to divestiture. The operations of the TekPack business are reflected in continuing operations and continue to be included in the Filtration segment.

3. Acquisitions

2009

On September 21, 2009, the Company acquired a minority equity interest in Firetide, Inc. for \$4 million in cash. Firetide, Inc. is a provider of wireless infrastructure mesh network management systems which will enable communications with other Smart Grid assets and this technology will be used in Aclara's Smart Communications Network solution. This investment is accounted for under the cost method and is classified as a long-term other asset on the Company's consolidated balance sheet as of September 30, 2009.

On July 2, 2009, the Company acquired certain assets of Complus Systems Pvt Ltd. (Complus) in India for approximately \$1.2 million in cash and formed a new Indian entity. The entity will operate as ETS-India and its operating results, since the date of acquisition, are included within the Test segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2008

On November 30, 2007, the Company acquired the capital stock of Doble for a purchase price of approximately \$328 million, net of cash acquired. Doble, headquartered in Watertown, Massachusetts, is a worldwide leader in providing high-end intelligent diagnostic test solutions for the electric utility industry. The acquisition aligns with the Company's long-term growth strategy of expanding its products and services in the utility industry. The operating results for Doble, since the date of acquisition, are included within the USG segment.

The purchase price allocation was as follows:

(In thousands)

Net tangible assets	\$ 44,498
Identifiable intangible assets:	
Trade names	112,290
Customer relationships	52,510
Software and databases	3,790
Total identifiable intangible assets	168,590
Goodwill	192,203
Long-term deferred tax liabilities	(67,830)
Total cash consideration	\$337,461

Reconciliation of purchase price:

Total cash consideration	\$337,461
Less: cash acquired	(9,639)
Purchase price	\$327,822

The identifiable intangible assets consisting of customer relationships will be amortized on a straight-line basis over twenty years and the software and databases will be amortized on a straight-line basis over five years. The identifiable intangible asset consisting of trade names has an indefinite life and is not subject to amortization.

Pro Forma Results

The following pro forma financial information for the years ended September 30, 2008 and 2007 presents the combined results of operations of ESCO and Doble as if the acquisition had occurred on October 1, 2006. The pro forma financial information for the periods presented excludes the Comtrak business which was sold in March 2009 and the Filtertek business which was sold in November 2007. The combined results of operations have been adjusted for the impact of certain acquisition-related items, including additional amortization of identifiable intangible assets, additional financing expenses and other direct costs. The impact of pro forma adjustments are tax-effected at the expected future consolidated corporate tax rate.

The unaudited pro forma financial information is not intended to represent, or be indicative of, the Company's consolidated results of operations or financial condition that would have been reported had the acquisition been completed as of the beginning of each of the periods presented. This information is provided for illustrative purposes only and is not necessarily indicative of the Company's future consolidated results of operations or financial condition.

(In millions, except per share data)

(Unaudited)

Pro Forma Results	FY 2008	FY 2007
Net sales	\$629.8	516.9
Net earnings from continuing operations	\$ 47.1	34.8
Net earnings per share		
Basic	\$ 1.82	1.34
Diluted	\$ 1.79	1.31

On July 31, 2008, the Company acquired the capital stock of LDIC GmbH and LDIC AG (collectively "LDIC") for a purchase price of approximately \$13 million, net of cash acquired. LDIC, with operations in Germany and Switzerland, is a manufacturer of partial discharge diagnostic testing instruments and systems serving the international electric utility industry. The operating results for LDIC since the date of acquisition are included within Doble in the USG segment. The Company recorded approximately \$8 million of goodwill as a result of the transaction, \$2.5 million of trade names and \$1.5 million of amortizable identifiable intangible assets consisting of customer relationships which are being amortized on a straight-line basis over seven years. In connection with the acquisition, the Company has \$5.2 million of cash in an escrow account to be earned by the sellers if the future target revenues are achieved. The \$5.2 million is classified as restricted cash and is included in Other assets on the Company's consolidated balance sheet at September 30, 2009.

2007

On August 10, 2007, the Company acquired the assets and certain liabilities of Wintec, LLC (Wintec) for a purchase price of \$6 million and recorded approximately \$5 million of goodwill in connection with the transaction. The operating results for Wintec, since the date of acquisition, are included within VACCO in the Filtration segment.

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. Pro forma financial information related to the Company's acquisitions, excluding Doble, was not presented as it was not significant to the Company's results of operations. None of the goodwill recorded as part of the acquisitions mentioned above is expected to be deductible for U.S. Federal or state income tax purposes.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Goodwill and Other Intangible Assets

Included on the Company's Consolidated Balance Sheets at September 30, 2009 and 2008 are the following intangible assets gross carrying amounts and accumulated amortization:

(Dollars in millions)	2009	2008
Goodwill	\$ 330.7	328.9
Intangible assets with determinable lives:		
Patents		
Gross carrying amount	\$ 13.6	13.6
Less: accumulated amortization	13.1	12.8
Net	\$ 0.5	0.8
Capitalized software		
Gross carrying amount	\$ 93.7	88.6
Less: accumulated amortization	41.9	26.8
Net	\$ 51.8	61.8
Customer Relationships		
Gross carrying amount	\$ 54.0	54.0
Less: accumulated amortization	5.0	2.2
Net	\$ 49.0	51.8
Other		
Gross carrying amount	\$ 10.2	10.0
Less: accumulated amortization	7.5	6.5
Net	\$ 2.7	3.5
Intangible assets with indeterminable lives:		
Trade names	\$ 117.6	118.3

The Company performed its annual evaluation of goodwill and intangible assets for impairment during the fourth quarter of fiscal 2009 and concluded no impairment existed at September 30, 2009.

The changes in the carrying amount of goodwill attributable to each business segment for the years ended September 30, 2009 and 2008 are as follows:

(Dollars in millions)	USG	Test	Filtration	Total
Balance as of				
September 30, 2007	\$ 75.4	29.1	45.0	149.5
Divestiture	—	—	(24.7)	(24.7)
Acquisitions	203.7	0.4	—	204.1
Balance as of				
September 30, 2008	279.1	29.5	20.3	328.9
Acquisitions	0.8	1.0	—	1.8
Balance as of				
September 30, 2009	\$ 279.9	30.5	20.3	330.7

Amortization expense related to intangible assets with determinable lives was \$19.2 million, \$17.0 million and \$10.2 million in 2009, 2008 and 2007, respectively. The increase in amortization expense in 2009 as compared to the prior years was mainly due to the Company's TWACS NG software and the purchase accounting intangible assets. The Company recorded \$12.2 million, \$11.0 million and \$6.2 million of amortization expense related to Aclara PLS's TWACS NG software in 2009, 2008 and 2007, 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. Intangible asset amortization for fiscal years 2010 through 2014 is estimated at approximately \$11 million declining to \$9.5 million per year. The decrease in expected intangible asset amortization in 2010 as compared to 2009 is related to the TWACS NG software.

5. Accounts Receivable

Accounts receivable, net of the allowance for doubtful accounts, consist of the following at September 30, 2009 and 2008:

(Dollars in thousands)	2009	2008
Commercial	\$ 104,409	126,134
U.S. Government and prime contractors	4,211	8,576
Total	\$ 108,620	134,710

6. Inventories

Inventories consist of the following at September 30, 2009 and 2008:

(Dollars in thousands)	2009	2008
Finished goods	\$ 38,153	19,865
Work in process — including long-term contracts	16,433	15,736
Raw materials	27,434	29,418
Total	\$ 82,020	65,019

7. Property, Plant and Equipment

Depreciation expense of property, plant and equipment from continuing operations for the years ended September 30, 2009, 2008 and 2007 was \$11.1 million, \$10.0 million and \$6.3 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, 2009, 2008 and 2007 was \$8.0 million, \$7.8 million and \$6.6 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2009 are:

(Dollars in thousands)
Years ending September 30:

2010	\$ 7,401
2011	6,179
2012	5,580
2013	3,239
2014 and thereafter	7,168
Total	\$29,567

8. Income Tax Expense

Total income tax expense for the years ended September 30, 2009, 2008 and 2007 was allocated as follows:

(Dollars in thousands)	2009	2008	2007
Income tax expense from continuing operations	\$ 13,867	23,709	7,854
Discontinued operations	(1,473)	386	1,161
Total income tax expense	\$ 12,394	24,095	9,015

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

(Dollars in thousands)	2009	2008	2007
United States	\$ 60,477	66,723	34,543
Foreign	2,695	4,555	4,117
Total income before income taxes	\$ 63,172	71,278	38,660

The principal components of income tax expense from continuing operations for the years ended September 30, 2009, 2008 and 2007 consist of:

(Dollars in thousands)	2009	2008	2007
Federal			
Current (including Alternative Minimum Tax)	\$ 10,425	463	(5,820)
Deferred	(1,666)	16,820	9,831
State and local:			
Current	4,683	2,788	992
Deferred	(421)	2,139	1,916
Foreign:			
Current	1,179	1,234	1,106
Deferred	(333)	265	(171)
Total	\$ 13,867	23,709	7,854

The actual income tax expense from continuing operations for the years ended September 30, 2009, 2008 and 2007 differs from the expected tax expense for those years (computed by applying the U.S. Federal corporate statutory rate) as follows:

	2009	2008	2007
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local, net of Federal benefits	4.4	2.5	2.8
Foreign	(0.2)	(0.3)	(1.3)
Research credit	(7.5)	(1.4)	(11.4)
Export Incentive	—	(2.2)	—
Domestic production deduction	(1.8)	(1.1)	—
Share-based compensation	0.4	0.7	3.6
Change in tax contingencies	—	—	(5.8)
Change in uncertain tax positions	(7.9)	(0.3)	—
Release of valuation allowance	—	—	(2.0)
Other, net	(0.4)	0.4	(0.6)
Effective income tax rate	22.0%	33.3%	20.3%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 2009 and 2008 are presented below.

(Dollars in thousands)	2009	2008
Deferred tax assets:		
Inventories, long-term contract accounting, contract cost reserves and others	\$ 4,017	1,964
Pension and other postretirement benefits	11,421	4,393
Net operating loss carryforward — domestic	1,516	1,429
Net operating loss carryforward — foreign	1,468	3,950
Capital loss carryforward	254	8,297
Other compensation-related costs and other cost accruals	11,761	10,830
Research credit carryforward	5,843	10,020
Total deferred tax assets	36,280	40,883
Deferred tax liabilities:		
Plant and equipment, depreciation methods, acquisition asset allocations, and other	(92,708)	(96,783)
Net deferred tax liabilities before valuation allowance	(56,428)	(55,900)

Less valuation allowance	(1,626)	(12,247)
Net deferred tax liabilities	\$(58,054)	(68,147)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2009, the Company has established a valuation allowance of \$0.3 million against the capital loss carryforward generated in 2008, as such loss carryforward may not be realized in future periods. The Company reduced the valuation allowance by \$7.3 million in fiscal 2009 as a result of the expiration of a capital loss carryforward. In addition, the Company has established a valuation allowance against certain net operating loss (NOL) carryforwards in foreign jurisdictions which may not be realized in future periods. The valuation allowance established against the foreign NOL carryforwards was \$1.4 million and \$3.9 million at September 30, 2009 and 2008, respectively. The decrease is mainly a result of the legal dissolution of foreign entities with NOL carryforwards. The Company classifies its valuation allowance related to deferred taxes on a pro rata basis.

The Company expects the net research tax credits related to fiscal year 2009 to be approximately \$0.7 million. The expiration of the research credits is between 2026 and 2029. The Company anticipates being able to utilize the research credits to reduce future Federal income tax cash payments. Research credits of \$3.5 million were included in the fiscal 2009 provision as a result of a decrease in the Company's tax positions for the fiscal years 2000 through 2007.

No deferred taxes have been provided on the accumulated unremitted earnings of \$29.5 million for the Company's foreign subsidiaries as of September 30, 2009. 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 \$5.1 million would be due, which would correspondingly reduce the Company's net earnings.

As of September 30, 2009, the Company had \$3.3 million of unrecognized benefits (see table below), of which \$3.2 million, net of Federal benefit, if recognized, would affect the Company's effective tax rate.

A reconciliation of the Company's unrecognized tax benefits for the year ended September 30, 2009 is presented in the table below:

(Dollars in millions)

Balance as of October 1, 2008	\$ 13.0
Increases related to prior year tax positions	0.2
Decreases related to prior year tax positions	(10.0)
Increases related to current year tax positions	0.9
Decreases related to settlements with taxing authorities	(0.7)
Lapse of statute of limitations	(0.1)
Balance as of September 30, 2009	\$ 3.3

The \$10.0 million decrease related to prior year tax positions was primarily the result of the closing of a U.S. taxing authority's examination of the Company's research credit claims and the confirmation of the Company's tax position for the deduction of losses realized on the disposition of a portion of the MicroSep business in 2004. It is the Company's policy to record the tax effects of changes in the opening balance of unrecognized tax benefits in net earnings from continuing operations.

The Company anticipates a \$0.2 million reduction in the amount of unrecognized tax benefits in the next twelve months as a result of a lapse of the applicable statute of limitations. The Company's policy is to include interest related to unrecognized tax benefits in income tax expense and penalties in operating expense. As of September 30, 2009, the Company had accrued interest related to uncertain tax positions of \$0.1 million, net of Federal income tax benefit, on its consolidated balance sheet. No penalties have been accrued.

The principal jurisdictions for which the Company files income tax returns are U.S. Federal and the various city, state, and international locations where the Company has operations. Due to the timing of the utilization of the Company's net operating loss, the 1994 through 2008 U.S. Federal tax years remain subject to income tax examination. In the fourth quarter of 2009, the Internal Revenue Service (IRS) completed its examination of the Company's U.S. income tax returns for the periods ended September 30, 2003 through September 30, 2007; and the Company and the IRS reached mutual agreement of the adjustments to those returns. Various state tax years from 2004 through 2008 remain subject to income tax examinations. The Company is subject to income tax in many jurisdictions outside the United States, none of which is individually material to the Company's financial position, statements of cash flows, or results of operations.

9. Debt

Debt consists of the following at September 30, 2009 and 2008:

(Dollars in thousands)

	2009	2008
Revolving credit facility, including current portion	\$180,467	233,650
Current portion of long-term debt	(50,000)	(50,000)
Total long-term debt, less current portion	\$130,467	183,650

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2009, the Company had approximately \$193 million available to borrow comprised of: approximately \$143 million available under the credit facility, plus a \$50 million increase option, in addition to \$44.6 million cash on hand. The Company classified \$50 million as the current portion on long-term debt as of September 30, 2009, as the Company intends to repay this amount within the next twelve months; however, the Company has no contractual obligation to repay such amount during the next twelve months. The credit facility has a maturity date of November 30, 2012.

The credit facility requires, as determined by certain financial ratios, a facility fee ranging from 15 to 25 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 a leverage ratio and an interest coverage ratio. During 2009 and 2008, the maximum aggregate short-term borrowings at any month-end were \$225.7 million and \$274.7 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were \$210.8 million and \$249.8 million, respectively; and the weighted average interest rates were 3.26%, 4.75%, and 6.24% for 2009, 2008 and 2007, respectively. The letters of credit issued and outstanding under the credit facility totaled \$7.2 million and \$6.6 million at September 30, 2009, and 2008, respectively.

10. Capital Stock

The 29,771,103 and 29,465,154 common shares as presented in the accompanying Consolidated Balance Sheets at September 30, 2009 and 2008 represent the actual number of shares issued at the respective dates. The Company held 3,357,046 and 3,375,106 common shares in treasury at September 30, 2009 and 2008, respectively.

In August 2009, the Company's Board of Directors authorized an open market common stock repurchase program of the Company's shares at a value not to exceed \$30 million, subject to market conditions and other factors which covers the period through September 30, 2010. There were no stock repurchases during 2009 or 2008. The Company repurchased \$10 million or 265,000 shares during 2007.

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, 2009, 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 89,708 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. The Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award.

The fair value of each option award is estimated as of the date of grant using the 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. For fiscal years 2009 and 2008, the Company utilized historical company data to develop its expected term assumption. For fiscal year 2007, the expected term was calculated 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 2009, 2008 and 2007, respectively: expected dividend yield of 0% in all periods; expected volatility of 39.3%, 34.8% and 27.3%; risk-free interest rate of 1.9%, 2.9% and 4.6%; and expected term of 3.8 years, 3.8 years and 3.5 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	FY2009		FY2008		FY2007	
	Shares	Estimated Weighted Avg. Price	Shares	Estimated Weighted Avg. Price	Shares	Estimated Weighted Avg. Price
October 1,	1,139,201	\$ 30.40	1,558,941	\$ 30.35	1,387,348	\$ 26.60
Granted	129,300	\$ 37.42	16,000	\$ 35.82	296,280	\$ 45.71
Exercised	(336,876)	\$ 22.85	(295,339)	\$ 24.83	(101,683)	\$ 21.56
Cancelled	(39,799)	\$ 45.03	(140,401)	\$ 42.22	(23,004)	\$ 40.59
September 30,	891,826	\$ 33.63	1,139,201	\$ 30.40	1,558,941	\$ 30.35
At September 30,						
Reserved for future grant	935,345		1,010,014		878,238	
Exercisable	683,192	\$ 31.61	884,812	\$ 26.25	951,066	\$ 21.99

The aggregate intrinsic value of options exercised during 2009, 2008 and 2007 was \$5.2 million, \$5.5 million and \$2.4 million, respectively. The aggregate intrinsic value of stock options outstanding and exercisable at September 30, 2009 was \$7.9 million. The weighted-average contractual life of stock options outstanding at September 30, 2009 was 2.1 years. The weighted-average fair value of stock options per share granted in 2009, 2008, and 2007 was \$12.11, \$10.98, and \$12.25, respectively.

Summary information regarding stock options outstanding at September 30, 2009 is presented below:

Range of Exercise Prices	Options Outstanding		
	Number Outstanding at Sept. 30, 2009	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price
\$7.09 - \$13.64	143,492	1.6 years	\$ 11.08
\$14.52 - \$32.32	137,158	2.9 years	\$ 15.01
\$35.18 - \$42.99	349,661	2.2 years	\$ 40.26
\$43.83 - \$54.88	261,515	2.0 years	\$ 46.91
	891,826	2.1 years	\$ 33.63

Range of Exercise Prices	Exercisable Options Outstanding	
	Number Exercisable at Sept. 30, 2009	Weighted Average Exercise Price
\$7.09 - \$13.64	143,492	\$ 11.08
\$14.52 - \$32.32	135,608	\$ 14.86
\$35.18 - \$42.99	215,458	\$ 42.04
\$43.83 - \$54.88	188,634	\$ 47.35
	683,192	\$ 31.61

Performance-accelerated Restricted Share Awards

The performance-accelerated restricted shares (restricted shares) have a five-year term 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. Pretax compensation expense related to the restricted share awards was \$2.8 million, \$1.2 million and \$1.5 million for fiscal years ended September 30, 2009, 2008 and 2007, respectively.

The following summary presents information regarding outstanding restricted share awards as of September 30, 2009 and changes during the period then ended:

	Shares	Weighted Avg. Price
Nonvested at October 1, 2008	202,895	\$ 41.15
Granted	98,459	\$ 37.35
Cancelled	(1,000)	\$ 30.39
Nonvested at September 30, 2009	300,354	\$ 39.94

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 \$0.7 million, \$0.7 million and \$0.8 million for the years ended September 30, 2009, 2008 and 2007, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The total share-based compensation cost that has been recognized in results of operations and included within SG&A (continuing operations) was \$4.9 million, \$4.0 million and \$4.8 million for the years ended September 30, 2009, 2008 and 2007, respectively. The total income tax benefit recognized in results of operations for share-based compensation arrangements was \$1.7 million, \$1.1 million and \$1.2 million for the years ended September 30, 2009, 2008 and 2007, 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. As of September 30, 2009, there was \$7.9 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 2.4 years.

12. Retirement and Other Benefit Plans

Substantially all domestic employees are covered by a 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. In conjunction with the acquisition of Doble, the Company assumed responsibility for their defined benefit plan and has frozen the plan effective December 31, 2008 and no additional benefits will be accrued after that date. The annual contributions to the defined benefit 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, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (now codified as ASC 715, *Compensation — Retirement Benefits*), as of September 30, 2007. As a result of adopting this Standard, the Company recorded a pretax 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 \$0.6 million at September 30, 2009 and 2008, 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, 2009, and a statement of the funded status as of September 30, 2009 and 2008:

(Dollars in millions)	Pension Benefits	
	2009	2008
Reconciliation of benefit obligation		
Net benefit obligation at beginning of year	\$ 59.7	46.2
Service cost	0.4	0.6
Interest cost	4.2	3.8
Actuarial (gain) loss	13.9	(7.1)
Acquisitions	—	18.8
Settlements	(0.3)	—
Gross benefits paid	(3.0)	(2.6)
Net benefit obligation at end of year	\$ 74.9	59.7

(Dollars in millions)	Pension Benefits	
	2009	2008
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 48.0	38.2
Actual return on plan assets	(0.8)	(9.6)
Employer contributions	2.6	0.8
Gross benefits paid	(3.0)	(2.6)
Acquisitions	—	21.2
Settlements	(0.3)	—
Fair value of plan assets at end of year	\$ 46.5	48.0

(Dollars in millions)	Pension Benefits	
	2009	2008
Funded Status		
Funded status at end of year	\$ (28.4)	(11.7)
Unrecognized prior service cost	—	—
Unrecognized net actuarial (gain) loss	—	—
Accrued benefit cost	(28.4)	(11.7)
Amounts recognized in the Balance Sheet consist of:		
Noncurrent asset	—	1.6
Current liability	(1.0)	(1.3)
Noncurrent liability	(27.4)	(11.9)
Accumulated other comprehensive income (before tax effect)	30.5	11.7
Amounts recognized in Accumulated Other Comprehensive Income consist of:		
Net actuarial loss	30.4	11.6
Prior service cost	0.1	0.1
Accumulated Other Comprehensive Income	\$ 30.5	11.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the components of net periodic benefit cost for the plans for the years ended September 30, 2009, 2008 and 2007:

(Dollars in millions)	Pension Benefits		
	2009	2008	2007
Service cost	\$ 0.4	0.6	—
Interest cost	4.2	3.8	2.7
Expected return on plan assets	(4.3)	(4.3)	(2.8)
Net actuarial loss	0.2	0.2	0.4
Net periodic benefit cost	0.5	0.3	0.3
Defined contribution plans	4.4	4.2	3.6
Total	\$ 4.9	4.5	3.9

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 400 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:

	2009	2008	2007
Discount rate	7.25%	6.25%	5.75%
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:

	2009	2008
Discount rate	5.5%	7.25%
Rate of increase in compensation levels	N/A	N/A

The assumed rate of increase in compensation levels is not applicable in 2009, 2008 and 2007 as the plan was frozen.

The asset allocation for the Company's pension plans at the end of 2009 and 2008, the Company's acceptable range and the target allocation for 2010, by asset category, follows:

Asset Category	Target Allocation 2010	Acceptable Range	Percentage of Plan Assets at Year-end	
			2009	2008
Equity securities	60%	50-70%	61%	62%
Fixed income	40%	30-50%	36%	36%
Cash/cash equivalents	0%	0-5%	3%	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.

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 — 2010	\$ 3.5	0.1
Expected Benefit Payments		
2010	4.2	0.1
2011	3.4	0.1
2012	3.5	0.1
2013	3.8	0.1
2014	3.6	0.1
2015-2020	\$ 22.9	0.4

13. Derivative Financial Instruments

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. The Company is exposed to market risk related to changes in interest rates and selectively uses derivative financial instruments, including forward contracts and swaps, to manage

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

these risks. During 2009, the Company entered into two \$40 million one-year forward interest rate swaps effective October 5, 2009, to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. In addition during 2008, the Company entered into a two-year amortizing interest rate swap to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. The swap notional amount for the first year was \$175 million amortizing to \$100 million in the second year. All derivative instruments are reported on the balance sheet at fair value. The derivative instrument is designated as a cash flow hedge and the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. Including the impact of interest rate swaps outstanding, the interest rates on approximately 50% of the Company's total borrowings were effectively fixed as of September 30, 2009. The following is a summary of the notional transaction amounts and fair values for the Company's outstanding derivative financial instruments by risk category and instrument type, as of September 30, 2009.

(Dollars in thousands)	Notional Amount	Average Rec Rate	Average Pay Rate	Fair Value
Interest rate swap	\$ 100,000	0.31%	3.99%	\$ (685)
Interest rate swaps*	\$ 80,000	N/A	1.52%	\$ (778)

* These swaps represent forward-starting swaps and will be effective in October 2009.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective in fiscal 2009, the Company adopted the guidance in SFAS 157, now codified as FASB ASC 825, *Financial Instruments*, which defines fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

At September 30, 2009, the Company's financial statements included a liability of \$1.5 million classified within accrued other expenses on the Company's consolidated balance sheet, and accumulated other comprehensive loss of \$(0.9) million (net of deferred income tax effects of \$0.6 million) relating to the fair value of the interest rate swaps.

FASB ASC 825 establishes a three-level hierarchy for disclosure of fair value measurements, based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company's interest rate swaps are valued using a present value calculation based on an implied forward LIBOR curve (adjusted for the Company's credit risk) and are classified within Level 2 of the valuation hierarchy, as presented below as of September 30, 2009:

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Liabilities				
Interest rate swaps	\$ —	\$ 1,463	\$ —	\$ 1,463

14. Other Financial Data

Items charged to operations during the years ended September 30, 2009, 2008 and 2007 included the following:

(Dollars in thousands)	2009	2008	2007
Salaries and wages (including fringes)	\$ 153,416	144,199	111,746
Maintenance and repairs	3,807	3,356	3,019
Research and development (R&D) costs:			
Company-sponsored	31,974	32,955	23,471
Customer-sponsored	2,937	5,293	3,718
Total R&D	\$ 34,911	38,248	27,189
Other engineering costs	14,370	8,644	7,764
Total R&D and other engineering costs	\$ 49,281	46,892	34,953
As a % of net sales	8.0%	7.6%	8.0%

A reconciliation of the changes in accrued product warranty liability for the years ended September 30, 2009, 2008, and 2007 is as follows:

(Dollars in thousands)	2009	2008	2007
Balance as of October 1	\$ 2,788	1,445	1,390
Additions charged to expense	4,086	3,387	1,769
Deductions	(2,504)	(2,044)	(1,714)
Balance as of September 30	\$ 4,370	2,788	1,445

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Business Segment Information

The Company is organized based on the products and services it offers. Under this organizational structure, the Company has three reporting segments: Utility Solutions Group (USG), RF Shielding and Test (Test) and Filtration/Fluid Flow (Filtration).

The USG segment's operations consist of: Aclara Power-Line Systems Inc. (Aclara PLS); Aclara RF Systems Inc. (Aclara RF); Aclara Software Inc. (Aclara Software) and Doble Engineering Company (Doble). The Aclara Group 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. Aclara's STAR® Network system and TWACS® technology provide advanced radio-frequency (RF) and power-line (PLS) based fixed-network technologies proven to meet the wide-ranging data communications requirements of utilities worldwide. Aclara Software applications add value across the utility enterprise, addressing meter and energy data management, distribution planning and operations, customer service and revenue management. Doble provides high-end, intelligent diagnostic test solutions for the electric power delivery industry and is a leading supplier of partial discharge testing instruments used to assess the integrity of high voltage power delivery equipment.

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 an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy. 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.

The Filtration segment's operations consist of: PTI Technologies Inc., VACCO Industries and TekPackaging LLC. The companies within this segment design and manufacture specialty filtration products including hydraulic filter elements used in commercial aerospace applications, unique filter mechanisms used in micro propulsion devices for satellites and custom designed filters for manned and unmanned aircraft.

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. The operating units within each reporting segment have been aggregated because of similar economic characteristics and meet the other aggregation criteria of FASB ASC 280.

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. Information in the tables below is presented on a Continuing Operations basis and excludes Discontinued Operations.

NET SALES

(Dollars in millions)
Year ended September 30,

	2009	2008	2007
Utility Solutions	\$ 374.0	352.7	190.3
Test	138.4	144.8	141.5
Filtration	106.7	116.1	105.6
Consolidated totals	\$ 619.1	613.6	437.4

One customer (PG&E) exceeded 10% of sales in 2009 with sales of \$106.2 million and in 2008 with sales of \$110.2 million.

No customers exceeded 10% of net sales in 2007.

EBIT

(Dollars in millions)
Year ended September 30,

	2009	2008	2007
Utility Solutions	\$ 62.5	66.6	22.6
Test	14.1	13.9	14.4
Filtration	18.1	21.2	18.4
Reconciliation to consolidated totals (Corporate)	(24.1)	(20.6)	(17.4)
Consolidated EBIT	70.6	81.1	38.0
Less: interest expense	(7.4)	(9.8)	—
Add: interest income	—	—	0.7
Earnings before income tax	\$ 63.2	71.3	38.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

IDENTIFIABLE ASSETS

(Dollars in millions) Year ended September 30,	2009	2008	2007
Utility Solutions	\$ 193.2	198.3	143.5
Test	69.4	84.2	72.0
Filtration	61.7	59.7	56.2
Corporate	599.4	585.9	304.4
Consolidated totals	\$ 923.7	928.1	576.1

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

CAPITAL EXPENDITURES

(Dollars in millions) Year ended September 30,	2009	2008	2007
Utility Solutions	\$ 6.2	9.0	7.0
Test	1.5	5.9	4.0
Filtration	1.6	1.6	1.4
Corporate	—	0.2	—
Consolidated totals	\$ 9.3	16.7	12.4

In addition to the above amounts, the Company incurred expenditures for capitalized software of \$5.0 million, \$10.5 million and \$28.6 million in 2009, 2008 and 2007, respectively.

DEPRECIATION AND AMORTIZATION

(Dollars in millions) Year ended September 30,	2009	2008	2007
Utility Solutions	\$ 20.5	18.0	10.1
Test	2.2	1.8	1.3
Filtration	2.7	2.8	2.8
Corporate	4.9	4.5	2.1
Consolidated totals	\$ 30.3	27.1	16.3

GEOGRAPHIC INFORMATION

Net sales

(Dollars in millions) Year ended September 30,	2009	2008	2007
United States	\$ 508.4	482.7	351.9
Far East	48.4	55.5	38.0
Europe	28.2	34.4	21.1
Other	34.1	41.0	26.4
Consolidated totals	\$ 619.1	613.6	437.4

Long-lived assets

(Dollars in millions) Year ended September 30,	2009	2008	2007
United States	\$ 62.3	66.2	46.0
Europe	3.2	3.5	2.0
Other	4.0	2.7	1.9
Consolidated totals	\$ 69.5	72.4	49.9

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

16. Commitments and Contingencies

At September 30, 2009, the Company had \$7.2 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Quarterly Financial Information (Unaudited)

(Dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2009					
Net sales	\$147,357	154,156	148,102	169,449	619,064
Net earnings from continuing operations	5,840	10,605	11,093	21,767	49,305
Net earnings (loss) from discontinued operations	(20)	(209)	332	—	103
Net earnings	5,820	10,396	11,425	21,767	49,408
Basic earnings (loss) per share:					
Net earnings from continuing operations	0.22	0.41	0.42	0.83	1.88
Net earnings (loss) from discontinued operations	—	(0.01)	0.02	—	—
Net earnings	0.22	0.40	0.44	0.83	1.88
Diluted earnings (loss) per share:					
Net earnings from continuing operations	0.22	0.40	0.42	0.82	1.86
Net earnings (loss) from discontinued operations	—	(0.01)	0.01	—	—
Net earnings	\$ 0.22	0.39	0.43	0.82	1.86
2008					
Net sales	\$135,272	134,400	151,351	192,543	613,566
Net earnings from continuing operations	8,734	6,561	12,401	19,873	47,569
Net earnings (loss) from discontinued operations	(5,918)	(479)	907	4,632	(858)
Net earnings	2,816	6,082	13,308	24,505	46,711
Basic earnings (loss) per share:					
Net earnings from continuing operations	0.34	0.25	0.48	0.76	1.84
Net earnings (loss) from discontinued operations	(0.24)	(0.01)	0.03	0.18	(0.04)
Net earnings	0.10	0.24	0.51	0.94	1.80
Diluted earnings (loss) per share:					
Net earnings from continuing operations	0.33	0.25	0.47	0.75	1.81
Net earnings (loss) from discontinued operations	(0.22)	(0.02)	0.03	0.18	(0.03)
Net earnings	\$ 0.11	0.23	0.50	0.93	1.78

See Notes 2 and 3 of Notes to Consolidated Financial Statements for discussion of divestiture and acquisition activity.

See Note 8 of Notes to Consolidated Financial Statements for discussion of the favorable settlement of uncertain tax positions in the 2009 fourth quarter that positively affected EPS by \$0.19 related to the disposition of a portion of the MicroSep business in 2004.

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 Rule 13a-15(f) under the Securities Exchange Act of 1934). 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, 2009 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, 2009 based on these criteria.

Our internal control over financial reporting as of September 30, 2009, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.



Victor L. Richey
Chairman, Chief Executive Officer and President



Gary E. Muenster
Executive 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, 2009 and 2008, 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, 2009. We also have audited ESCO Technologies Inc.'s internal control over financial reporting as of September 30, 2009, 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 these Consolidated Financial Statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these Consolidated Financial Statements and an opinion on ESCO Technologies Inc.'s internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the Consolidated Financial Statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 that 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, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of ESCO Technologies Inc. and subsidiaries as of September 30, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, ESCO Technologies Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 12 to the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (now codified as ASC 715, *Compensation — Retirement Benefits*), as of September 30, 2007.

KPMG LLP

St. Louis, Missouri
November 30, 2009

FIVE-YEAR FINANCIAL SUMMARY

(Dollars in millions, except per share amounts)

	2009	2008	2007	2006	2005
For years ended September 30:					
Net sales	\$ 619.1	613.6	437.4	374.8	334.3
Net earnings from continuing operations	49.3	47.6	30.8	29.4	36.1
Net earnings (loss) from discontinued operations	0.1	(0.9)	2.9	1.9	7.3
Net earnings	49.4	46.7	33.7	31.3	43.5
Earnings (loss) per share:					
Basic:					
Continuing operations	\$ 1.88	1.84	1.19	1.14	1.42
Discontinued operations	—	(0.04)	0.11	0.08	0.29
Net earnings	\$ 1.88	1.80	1.30	1.22	1.71
Diluted:					
Continuing operations	\$ 1.86	1.81	1.17	1.11	1.37
Discontinued operations	—	(0.03)	0.11	0.08	0.29
Net earnings	\$ 1.86	1.78	1.28	1.19	1.66
As of September 30:					
Working capital from continuing operations	116.2	100.6	118.2	108.6	180.9
Total assets	923.7	928.1	576.1	488.7	423.8
Total debt	180.5	233.7	—	—	—
Shareholders' equity	\$ 517.3	468.2	415.5	376.4	331.0

See Notes 2 and 3 of Notes to Consolidated Financial Statements for discussion of divestiture and 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 2009 and 2008.

Quarter	2009		2008	
	High	Low	High	Low
First	\$ 49.20	24.84	\$ 41.86	32.64
Second	42.87	29.04	43.56	32.65
Third	45.99	36.70	52.11	38.72
Fourth	46.87	35.44	54.06	38.85

SHAREHOLDERS' SUMMARY

SHAREHOLDERS' ANNUAL MEETING

The Annual Meeting of the Shareholders of ESCO Technologies Inc. will be held at 9:30 a.m. Thursday, February 4, 2010, at the Company's Corporate Headquarters, 9900A Clayton Road, St. Louis, Missouri 63124. You may access this Annual Report as well as the Notice of the meeting and the Proxy Statement on the Company's Annual Meeting web site at <http://www.cfpproxy.com/5157>.

CERTIFICATIONS

Pursuant to New York Stock Exchange (NYSE) requirements, the Company submitted to the NYSE the annual certifications, dated February 17, 2009 and February 29, 2008, 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, 2009 and September 30, 2008.

10-K REPORT

A copy of the Company's 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders without charge. Direct your written request to Patricia K. Moore, Director of Investor Relations, 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 2,400 holders of record of shares of common stock at November 6, 2009.

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>
Aclara Power-Line Systems Inc.	Missouri	Same
Aclara RF Systems Inc.	Ohio	Same
Aclara Software Inc.	Massachusetts	Same
Beijing Lindgren ElectronMagnetic Technology Co., Ltd.	People's Republic of China	Same
Distribution Control Systems Caribe, Inc.	Puerto Rico	Same
Doble Engineering Company	Massachusetts	Same
Doble Lemke AG	Switzerland	Same
Doble Lemke GmbH	Germany	Same
Doble PowerTest Limited	United Kingdom	Same
Doble TransiNor AS	Norway	Same
ESCO Technologies Holding Inc.	Delaware	Same
ETS Lindgren Engineering India Private Limited	India	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
Lindgren R.F. Enclosures, Inc.	Illinois	Same and ETS- Lindgren
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. of our report dated November 30, 2009, with respect to the consolidated balance sheets of ESCO Technologies Inc. and subsidiaries (the Company) as of September 30, 2009 and 2008, 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, 2009, and the effectiveness of internal control over financial reporting as of September 30, 2009, which report appears in the Annual Report to Stockholders for the fiscal year ended September 30, 2009 and is incorporated by reference in the September 30, 2009 annual report on Form 10-K of ESCO Technologies Inc.

Our report dated November 30, 2009, 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* (now Codified as ASC 715, *Compensation – Retirement Benefits*), as of September 30, 2007.

/s/ KPMG LLP

St. Louis, Missouri
November 30, 2009

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 30, 2009

/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 30, 2009

/s/ G.E. Muenster
G.E. Muenster
Exec. 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, 2009 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, Executive 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 30, 2009

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

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