

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended December 31, 1999

or

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

Commission file number 1-10596

ESCO ELECTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

Missouri 43-1554045
 (State or other jurisdiction of (I.R.S. Employer
 incorporation or organization) Identification No.)

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

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

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

Number of common stock trust receipts outstanding at January 31, 2000: 12,267,062 receipts.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended December 31,	

	1999	1998
	----	----
Net sales	\$ 65,865	88,193
	-----	-----
Costs and expenses:		
Cost of sales	46,237	65,299
Selling, general and administrative expenses	13,752	17,221
Interest (income) expense	(151)	1,732
Other, net	1,591	1,610
Gain on sale of property	(2,239)	-

Total costs and expenses	59,190	85,862
Earnings before income taxes	6,675	2,331
Income tax expense	1,619	816
Net earnings before accounting change	5,056	1,515
Cumulative effect of accounting change, net of tax	-	(25,009)
Net earnings (loss)	\$ 5,056	(23,494)
Earnings (loss) per share:		
Earnings before accounting change		
- Basic	\$.41	.12
- Diluted	.40	.12
Net earnings (loss)	\$.41	(1.91)
- Diluted	.40	(1.91)

See accompanying notes to consolidated financial statements.

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

	December 31, 1999	September 30, 1999
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,732	87,709
Accounts receivable, less allowance for doubtful accounts of \$629 and \$574, respectively	42,025	38,669
Costs and estimated earnings on long-term contracts, less progress billings of \$10,614 and \$11,778, respectively	5,712	4,019
Inventories	42,748	39,590
Other current assets	3,874	3,559
Total current assets	106,091	173,546
Property, plant and equipment, at cost	111,084	109,763
Less accumulated depreciation and amortization	40,776	38,445
Net property, plant and equipment	70,308	71,318
Excess of cost over net assets of purchased businesses, less accumulated amortization of \$7,162 and \$6,631, respectively	67,912	68,950
Deferred tax assets	43,161	44,783
Other assets	21,501	19,788
	\$308,973	378,385
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ -	20,598
Accounts payable	23,709	26,339
Advance payments on long-term contracts, less costs incurred of \$616 and \$479, respectively	1,405	682
Accrued expenses and other current liabilities	22,306	30,598

Total current liabilities	47,420	78,217
	-----	-----
Other liabilities	9,984	9,583
Long-term debt	920	41,896
	-----	-----
Total liabilities	58,324	129,696
	-----	-----
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, par value \$.01 per share, authorized 10,000,000 shares	-	-
Common stock, par value \$.01 per share, authorized 50,000,000 shares; issued 13,076,139 and 12,782,663 shares, respectively	131	128
Additional paid-in capital	203,831	201,719
Retained earnings since elimination of deficit at September 30, 1993	57,779	52,723
Accumulated other comprehensive loss	(2,482)	(1,870)
	-----	-----
	259,259	252,700
Less treasury stock, at cost; 807,125 and 404,625 common shares, respectively	(8,610)	(4,011)
	-----	-----
Total shareholders' equity	250,649	248,689
	-----	-----
	\$308,973	378,385
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Three Months Ended December 31,	
	-----	-----
	1999	1998
	----	----
Cash flows from operating activities:		
Net earnings (loss)	\$ 5,056	(23,494)
Adjustments to reconcile net earnings (loss) to net cash used by operating activities:		
Depreciation and amortization	3,626	4,501
Changes in operating working capital, net of accounting change	(18,721)	(19,019)
Effect of accounting change, net of tax	-	25,009
Other	(81)	2,751
	-----	-----
Net cash used by operating activities	(10,120)	(10,252)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(1,852)	(1,681)
Acquisition of businesses, less cash acquired	-	-
	-----	-----
Net cash used by investing activities	(1,852)	(1,681)
	-----	-----
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	(12,506)	16,500
Proceeds from long-term debt	80	96
Principal payments on long-term debt	(49,148)	(2,108)
Purchases of common stock into treasury	(4,613)	(1,562)
Other	2,182	(52)
	-----	-----
Net cash provided (used) by financing activities	(64,005)	12,978
	-----	-----
Net increase (decrease) in cash and cash equivalents	(75,977)	1,045
Cash and cash equivalents, beginning of period	87,709	4,241
	-----	-----
Cash and cash equivalents, end of period	\$ 11,732	5,286

See accompanying notes to consolidated financial statements.

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

1. Basis of Presentation

The accompanying consolidated financial statements, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required by generally accepted accounting principles. For further information refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 1999. Certain prior year amounts have been reclassified to conform to the fiscal 2000 presentation.

The results for the three month period ended December 31, 1999 are not necessarily indicative of the results for the entire 2000 fiscal year.

On September 30, 1999, the Company sold its last major defense business, Systems & Electronics Inc. (SEI) for \$85 million in cash, less working capital adjustments. The prior year amounts include the operating results of SEI for the entire year. The Company has provided a reconciliation of reported earnings to "adjusted" earnings within "Item 2. Management's Discussion and Analysis (MD&A)" noted below.

2. Earnings (Loss) Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options and performance shares by using the treasury stock method. The net loss per share for the first three months of fiscal 1999, for both basic and diluted loss per share, is calculated using the weighted average number of common shares outstanding during the period. The number of shares used in the calculation of earnings (loss) per share for each period presented is as follows (in thousands):

	Three Months Ended December 31, -----	
	1999	1998
	----	----
Weighted Average Shares		
Outstanding - Basic	12,343	12,310
Dilutive Options and Performance Shares	246	312
	-----	-----
Adjusted Shares- Diluted	12,589	12,622
	=====	=====

Options to purchase approximately 395,000 shares of common stock at prices ranging from \$11.44-\$19.22 per share and options to purchase 298,000 shares of common stock at approximately \$10.00 - \$19.22 were outstanding during the three month periods ended December 31, 1999 and 1998, respectively, but were not included in the respective computations of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in various periods through 2009. Approximately 136,000 and 166,000 performance shares were

outstanding but unearned at December 31, 1999, and 1998, respectively, and therefore, were not included in the respective computations of diluted EPS. The unearned performance shares expire in 2001.

3. Inventories

Inventories consist of the following (dollars in thousands):

	December 31, 1999 ----	September 30, 1999 ----
Finished goods	\$ 11,109	11,387
Work in process, including long-term contracts	16,934	14,517
Raw materials	14,705	13,686
	-----	-----
Total inventories	\$ 42,748 =====	39,590 =====

4. Change in Accounting Principle

During the first quarter of fiscal 1999, the Company adopted the provisions of Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities". This SOP provides guidance on accounting for start-up activities, including precontract costs and organization costs. The adoption of SOP 98-5 resulted in a non-cash, after-tax charge of approximately \$25 million, which was recognized as a cumulative effect of an accounting change in the prior year first quarter ended December 31, 1998.

5. Comprehensive Income (Loss)

Effective October 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income". SFAS No. 130 requires the Company to disclose all non-owner changes included in equity but not included in net earnings (loss) in a financial statement that is displayed with the same prominence as other financial statements.

Comprehensive income (loss) for the three-month periods ended December 31, 1999 and 1998 was \$4.4 million and (\$23.5) million, respectively. The Company's comprehensive income and loss is impacted only by foreign currency translation adjustments.

6. Business Segment information

The Company is organized based on the products and services that it offers. Beginning with the first quarter of fiscal 2000, the operating results of Comtrak Technologies, L.L.C (Comtrak) are included within the Company's Communications segment. This change from September 30, 1999 is the result of the consolidation of Distribution Control Systems, Inc. (DCSI) and Comtrak under common management, and the move of Comtrak operations into the DCSI operating facility. This consolidation occurred in the quarter ended December 31, 1999.

(\$ in millions)	Three Months ended December 31, -----	
	1999 ----	1998 ----
Net Sales		
	-----	-----
Filtration/Fluid Flow	\$43.2	40.0
Test	8.7	7.1
Communications	10.5	4.8
Other	3.5	3.8
Divested Business	-	32.5
	----	----
Consolidated totals	\$65.9 =====	88.2 =====
Operating Profit (Loss)		
	-----	-----

Filtration/Fluid Flow	\$ 3.4	3.4
Test	.7	.5
Communications	2.3	.3
Other	(.5)	(.2)
Divested Business	-	1.7
	-----	-----
Consolidated totals	\$ 5.9	5.7
	=====	=====

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

Reconciliation of Adjusted Net Earnings - 1999

The following table is not intended to present prior year net earnings as defined within generally accepted accounting principles (GAAP), and is presented for informational purposes only. The table is comparable to the full year table presented in the 1999 Annual Report to Shareholders (page 11).

The table provides a reconciliation between the 1999 reported financials and what Management believes the 1999 operating results may have been after removing certain nonrecurring items and assuming that all of the actions taken during 1999 to reorient the business were complete at the beginning of the period. Management believes the estimated 1999 adjusted operating results provide a meaningful presentation for purposes of analyzing ESCO's ongoing financial performance.

(\$ in millions, rounded)	Three Months Ended December 31, 1998			
	(a)		(b)	
	Reported	Elimination of SEI	Adjusting Items	Adjusted
Net sales	\$88.2	32.5	-	\$55.7
Cost of sales	65.3	25.7	(.2)	39.4
SG&A expenses	17.2	5.2	.2	12.2
Interest expense (income)	1.8	.2	(1.8)	(.2)
Other, net	1.6	.1	-	1.5
Total costs and expenses	85.9	31.2	(1.8)	52.9
Earnings before tax	2.3	1.3	1.8	2.8
Income tax expense	.8	-	.2	1.0
Net earnings before accounting change	1.5	1.3	1.6	1.8
Cumulative effect of accounting change, net of tax	(25.0)	-	25.0	-
Net earnings (loss)	\$ (23.5)	1.3	26.6	\$ 1.8
	=====	=====	=====	=====

(a) Represents the operations of SEI, which were included in the ESCO consolidated first quarter 1999 GAAP reported results of operations.

(b) Represents the adjusting items as explained in detail in the 1999 Annual Report to Shareholders (page 11), including: the operating results of Rantec's microwave business which is being offered for sale; the adjustment to the corporate office operating expenses resulting from the 1999 actions; the estimated net interest impact of the SEI transaction proceeds; and any related tax adjustment.

Results of Operations- Three months ended December 31, 1999
 - ----- compared with three months ended
 December 31, 1998.

NET SALES

Net sales of \$65.9 million for the first quarter of fiscal 2000 decreased \$22.3 million from reported net sales of \$88.2 million for the first quarter of fiscal 1999 due to the divestiture of SEI. The prior year amount included SEI sales of \$32.5 million. Excluding SEI from the prior year amounts, first quarter sales increased \$10.2 million (18.3%) over 1999 "adjusted" sales of \$55.7 million.

Filtration/Fluid Flow

Net sales of \$43.2 million in the first quarter of fiscal 2000 were 8.0% higher than prior year sales of \$40.0 million. The increase was primarily the result of new product introductions and increases in microfiltration sales. Increased shipments of disposable water filter cartridges and automotive transmission sump filters and fuel filters also contributed to the sales growth.

Test

Net sales of \$8.7 million increased 22.5% in fiscal 2000 over the \$7.1 million of net sales in fiscal 1999. The increase is primarily due to additional revenue related to the General Motors contract to design and build an electromagnetic compatibility (EMC) test complex.

Communications

Net sales of \$10.5 million in fiscal 2000 were 118.8% higher than the \$4.8 million of sales recorded in fiscal 1999. The large increase is the result of significantly higher shipments to Wisconsin Public Service Corporation (WPS) and the Puerto Rico Electric Power Authority (PREPA) to provide Automatic Meter Reading (AMR) systems.

Other

Sales were \$3.5 million in fiscal 2000 and \$3.8 million in fiscal 1999. The sale of the Rantec microwave antenna business is still being actively pursued.

ORDERS AND BACKLOG

Firm order backlog was \$147.9 million at December 31, 1999, compared with \$142.9 million at September 30, 1999. Orders totaling \$70.9 million were received in the first quarter of fiscal 2000, with the majority of the orders relating to Filtration / Fluid Flow products.

GROSS PROFIT

The gross profit margin was 29.8% in the first quarter of fiscal 2000 and 26.0% in the first quarter of fiscal 1999 as reported. The fiscal 1999 "adjusted" gross margin was 29.2%. The gross margin increased compared to the reported 1999 results primarily due to the lower margins related to the former defense subsidiary, SEI. Gross profit margin increased compared to "adjusted" 1999 due to changes in sales mix.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses for the first quarter of fiscal 2000 were \$13.7 million, or 20.9% of net sales, compared with \$17.2 million, or 19.5% of net sales. "Adjusted" SG&A expense was \$12.2 million, or 21.9% of net sales for the same period a year ago. The percentage decrease from "adjusted" 1999 is the result of favorable sales leverage achieved on the higher sales volume.

OPERATING PROFIT

Operating profit of \$5.9 million for the first quarter of fiscal 2000 increased 3.5% from reported operating profit of \$5.7 million for the first quarter of fiscal 1999. The prior year operating profit amount included \$1.7 million related to SEI. Current year operating profit increased \$1.9 million (47.5%) over prior year "adjusted" operating profit of \$4.1 million.

Filtration/Fluid Flow

Operating profit was \$3.4 million in both periods presented. The current year was impacted by costs related to the consolidation of the microfiltration business. In addition, the prior year period was favorably impacted by the close out of several high profit margin programs.

Test

- ----

Operating profit of \$.7 million increased 40.0% in fiscal 2000 over the \$.5 million of operating profit in fiscal 1999. The increase is primarily due to additional revenue related to the General Motors contract.

Communications

- -----

Operating profit of \$2.3 million in fiscal 2000 was \$2.0 million (666%) higher than the \$.3 million of operating profit in fiscal 1999. The large increase is the result of significantly higher shipments to WPS and PREPA as described above.

Other

- -----

Operating loss was (\$.5) million in fiscal 2000 and (\$.2) million in fiscal 1999, and primarily relates to the operations of the Rantec microwave antenna business, which is being offered for sale.

INTEREST (INCOME) EXPENSE

Interest income was \$.2 million versus interest expense of \$1.7 million in the first quarter of fiscal 1999. The positive change is due to the absence of debt in the current period. All outstanding debt, excluding approximately \$1 million of foreign debt, was repaid in October 1999 with the proceeds from the sale of SEI.

OTHER COSTS AND EXPENSES, NET

Other costs and expenses, net, were \$1.6 million in both periods presented. The current year amounts are comprised of amortization expense of \$.5 million and \$.3 million related to goodwill and patents, respectively. The balance relates to miscellaneous costs.

GAIN ON THE SALE OF PROPERTY

The gain relates to the sale of the Riverhead, New York property, used by the Company's former Hazeltine subsidiary. The property was sold for \$2.6 million, consisting of \$.5 million in cash and a \$2.1 million interest-bearing, 18-month note receivable.

INCOME TAX EXPENSE

The effective income tax rate in the first quarter of fiscal 2000 was 24.3% compared to 35.0% in the first quarter of fiscal 1999. The current period effective tax rate was favorably impacted by the \$2.2 million gain on the sale of property, in which the Company recognized zero tax expense. The deferred tax asset related to the book versus tax basis in the property was fully reserved in the deferred tax asset valuation allowance existing at September 30, 1999.

Excluding the gain on the sale of property, the effective income tax rate was 36.5%, and included a settlement related to certain state tax liabilities. Management estimates the annual effective tax rate, excluding the gain on the sale of property, for fiscal 2000 to be approximately 35%.

Financial Condition

- -----

Working capital decreased to \$58.7 million at December 31, 1999 from \$95.3 million at September 30, 1999. The decrease is primarily due to the use of cash to repay all debt outstanding at September 30, 1999, except for the \$0.9 million of foreign debt outstanding at December 31, 1999. During the first three months of fiscal 2000, accounts receivable increased by \$3.4 million as a result of the timing of sales and collections throughout the period. Costs and estimated earnings on long-term contracts and inventories increased in the aggregate by \$4.9 million primarily due to increased production requirements to satisfy additional sales expectations. Accounts payable and accrued expenses decreased by \$10.9 million due to the timing of payments related to the September 30, 1999 divestiture of SEI.

Net cash used by operating activities was \$10.1 million in the first three months of fiscal 2000 compared to net cash used by operating activities of \$10.3 million in the same period of fiscal 1999. The cash used by operating activities in fiscal 2000 was primarily impacted by divestiture related (SEI) payments and the above mentioned inventory requirements.

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.

During the quarter ended December 31, 1999, the Company repurchased approximately 400,000 shares of ESCO common stock as part of its ongoing open market repurchase program. Since announcing the program in fiscal 1999, the Company has repurchased approximately 600,000 shares of the 1.3 million shares authorized under the current program.

Capital expenditures were \$1.9 million in the first three months of fiscal 2000 compared with \$1.7 million in the comparable period of fiscal 1999. Major expenditures in the current period included manufacturing equipment used in the filtration / fluid flow business.

The Year 2000 Issue

The Company did not experience any significant problems, nor any operating inefficiencies, related to the Year 2000 issue.

Forward Looking Statements

Statements in this report that are not strictly historical are "forward looking" statements within the meaning of the safe harbor provisions of the federal securities laws. Investors are cautioned that such statements are only predictions, and speak only as of the date of this report. Actual results may differ materially due to risks and uncertainties which are described in the Company's Form 10-K for fiscal year 1999 and on page 41 of the 1999 Annual Report to Shareholders.

Item 3. 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. Based on the current debt structure, the exposure to interest rate risk is not material. The Company is subject to foreign currency exchange rate risk relating to receipts from customers and payments to suppliers in foreign currencies. The Company hedges foreign currency commitments by purchasing foreign currency forward contracts. The company does not consider the market risk exposure relating to currency exchange to be material.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In August 1994, a class action lawsuit was filed by Ronald and Angela Aprea and other persons against Hazeltine Corporation ("Hazeltine") in the Supreme Court of the State of New York, Suffolk County, alleging personal injury and property damage caused by Hazeltine's purported releases of hazardous materials at Hazeltine's facility at Greenlawn, New York. In connection with the Company's sale of Hazeltine in 1996, the Company indemnified Hazeltine against expenses and potential liability related to this suit. The suit sought compensatory and punitive damages, and an order enjoining Hazeltine from discharging further hazardous materials and for Hazeltine to remediate all damage to the property of the plaintiffs. It was the Company's position that no one and no property was injured by any release of hazardous materials from Hazeltine's facility. As of December 20, 1999, this suit was settled and discontinued with prejudice. The settlement cost to the Company was \$45,000.

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

The Annual Meeting of the Company's shareholders was held on Thursday, February 3, 2000. Voted on at the meeting was the

election of two directors. The voting for directors was as follows:

	For	Withheld
J. M. McConnell	11,057,229	136,120
D. C. Trauscht	11,057,825	135,524

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

a) Exhibits. NONE

b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K, dated October 13, 1999, during the quarter ended December 31, 1999 which reported "Item 2. Acquisition or Disposition of Assets" and "Item 7. Financial Statements and Exhibits". Financial statements filed with the report were:

- (1) Unaudited Pro Forma Consolidated Statements of Operations for the fiscal year ended September 30, 1998.
- (2) Unaudited Pro Forma Consolidated Statement of Operations for the nine months ended June 30, 1999.
- (3) Unaudited Pro Forma Consolidated Balance Sheet at June 30, 1999.

SIGNATURE

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

ESCO ELECTRONICS CORPORATION

/s/Gary E. Muenster
Gary E. Muenster
Vice President and
Corporate Controller
(As duly authorized officer
and principal accounting
officer of the registrant)

Dated: February 14, 2000

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1,000

3-MOS
SEP-30-2000
DEC-31-1999
11,732
0
42,654
629
42,748
106,091
111,084
40,776
308,973
47,420
0
0
131
250,518
308,973
65,865
65,865
46,237
59,989
(648)
0
(151)
6,675
1,619
5,056
0
0
0
0
.41
.40

THIS NUMBER DOES NOT INCLUDE \$5.7 MILLION OF COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS.