

ESCO TECHNOLOGIES INC

Form 10-K

November 29, 2007



Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 business on March 31, 2007: \$1,144,087,825\*.

\* 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 26, 2007: 25,747,897.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 2007 (the "2007 Annual Report") (Parts I and II).
  2. Portions of the registrant's Proxy Statement dated December 19, 2007 (the "2008 Proxy Statement") (Part III).
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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 industrial and commercial applications. ESCO operates in three operating segments which, together with the operating subsidiaries within each segment, are as follows:

**Communications:**

Distribution Control Systems, Inc. ( DCSI )

Distribution Control Systems Caribe, Inc.

Hexagram, Inc. ( Hexagram )

Nexus Energy Software, Inc. ( Nexus )

Comtrak Technologies, L.L.C. ( Comtrak )

**Filtration/Fluid Flow ( Filtration ):**

Filtertek Inc.

Filtertek BV

Filtertek do Brasil Industria E Comercio Ltda.

Filtertek SA

Filtertek De Mexico, S.A. de C.V.

PTI Technologies Inc. ( PTI )

VACCO Industries ( VACCO )

TekPackaging LLC

**RF Shielding and Test ( Test ):**

ETS-Lindgren L.P.

Lindgren RF Enclosures, Inc.

ETS-Lindgren OY

ETS-Lindgren Limited

Beijing Lindgren ElectronMagnetic Technology Co., Ltd.

ETS-Lindgren Japan, Inc.

All of the Filtertek entities listed above are hereinafter collectively referred to as Filtertek . All of the Test segment entities listed above are hereinafter collectively referred to as ETS-Lindgren .

On November 25, 2007, the Company completed the sale of the Filtertek businesses to Illinois Tool Works Inc. for approximately \$77.5 million in cash, subject to closing working capital adjustments. The net cash proceeds from the sale, estimated at \$70 million after taxes and expenses, will be used to pay down a portion of the debt associated with the Doble Engineering Company acquisition, mentioned below.

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 referred to collectively 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 2007 Annual Report, which is herein incorporated by reference, and Forward-Looking Information below.

On August 10, 2007 ESCO acquired the assets and certain liabilities of Wintec, LLC (Wintec) for a purchase price of \$6 million. Wintec produces metallic filtration products and its business has been incorporated into VACCO s operations.

On November 7, 2007, ESCO announced an agreement to acquire the stock of Doble Engineering Company, headquartered in Watertown, Massachusetts, for \$319 million in cash, subject

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to adjustment for differences in working capital and cash on hand at closing. The Company intends to fund the acquisition by a combination of existing cash and borrowings under a new credit facility to be entered into with a group led by National City Bank. The acquisition is expected to close in the quarter ending December 31, 2007.

**PRODUCTS**

The Company's products are described below. See Note 14 of the Notes to Consolidated Financial Statements in the 2007 Annual Report for financial information regarding segments, which Note is herein incorporated by reference.

**COMMUNICATIONS**

The Communications segment accounted for approximately 37%, 34% and 32% of the Company's total revenue in fiscal years 2007, 2006 and 2005, respectively.

DCSI 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 TWACS Network Gateway (TWACS NG) software is being developed with technical assistance from a third-party contractor. This development continued in fiscal 2007, leading to the commercial release of its third version, which was delivered to the customer, and has been undergoing operational testing. Additional versions of this software are currently under development and are scheduled for commercial release in fiscal 2008. 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 24%, 26% and 28% of the Company's total revenue in fiscal years 2007, 2006 and 2005, respectively. In November 2005, DCSI entered into a contract to provide equipment, software and services to Pacific Gas & Electric (PG&E) in support of the electric portion of PG&E's Advanced Metering Infrastructure (AMI) project. The contract value was initially expected to total approximately \$310 million over a five-year period; however, during the third quarter of fiscal 2007, PG&E announced its plans to request proposals from a small group of vendors in order to evaluate such vendors' ability to address potential future functionality requirements for the electric portion of its service territory currently included in DCSI's contract. For further discussion of this contract and certain related contingencies and uncertainties, see Item 1.A Risk Factors and Management's Discussion and Analysis - Pacific Gas & Electric appearing in the 2007 Annual Report.

Hexagram provides, through its STAR® network, wireless RF data communications systems, primarily to gas and water utilities for automatic meter reading applications. In November 2005, Hexagram entered into a contract with PG&E to provide its communications system for the gas meter portion of PG&E's AMI Project. The total anticipated contract revenue through the full five-year deployment is approximately \$225 million. This contract is subject to contingencies and uncertainties similar to those associated with the DCSI - PG&E contract described above, except that the TWACS NG software is not applicable to this contract. PG&E is currently evaluating Hexagram's technology for possible use in the electric portion of its AMI project.

Nexus provides energy companies with software solutions that add value to their existing billing and metering infrastructure to allow both the energy company and its customers to better manage energy-driven transactions and decision-making. Nexus' analytics-based software applications are used by over 100 major energy organizations worldwide.

Comtrak manufactures advanced video security monitoring systems for commercial and industrial applications. Comtrak is continuing to work jointly with ADT Security Services, Inc., who is selling this system under its SecurVision® trademark to a variety of markets.



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**FILTRATION**

The Filtration segment accounted for approximately 36%, 38% and 40% of the Company's total revenue in fiscal years 2007, 2006 and 2005, 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 and mobile equipment hydraulic systems, aircraft engines, plant equipment and automotive transmissions. 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 thermal-formed and security packaging products for medical, food and electronics products.

As previously noted in this report, the Filtertek businesses were sold as of November 25, 2007. Filtertek develops and manufactures a broad range of specialized filtration and fluid/flow products at its facilities in North America, South America and Europe. Filtertek's products, which are centered around its insert injection-molding technology wherein a filter medium is inserted into the tooling prior to injection-molding of the filter housing, have widespread applications in the medical and healthcare, automotive fluid system, consumer appliance and other commercial and industrial markets. Typical Filtertek customers may require daily production of thousands of units, at very high levels of quality, that are generally produced in highly-automated manufacturing cells. Many of Filtertek's products are produced utilizing patented designs or proprietary product or process design, or both. Filtertek's products are typically supplied to original equipment manufacturers under long-term contracts.

**TEST**

The Test segment accounted for approximately 27%, 28% and 28% of the Company's total revenue in fiscal years 2007, 2006 and 2005, 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.

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**MARKETING AND SALES**

The Filtration and Test segments' products generally are distributed to customers through a domestic and foreign network of distributors, sales representatives and in-house salespersons. DCSI's sales to investor-owned utilities are made directly to the utilities through its sales team. DCSI utilizes distributors and direct sales representatives to sell its systems to the electric utility cooperative and municipal markets. Hexagram utilizes distributors and direct sales representatives to sell its systems to electric, gas, water and combination utilities. Nexus markets its products utilizing its in-house sales force.

The Company's international sales accounted for approximately 23%, 22% and 24% of the Company's total sales in the fiscal years ended September 30, 2007, 2006 and 2005, respectively. See Note 14 of the Notes to Consolidated Financial Statements in the 2007 Annual Report for financial information regarding geographic areas, which Note is herein incorporated by reference. See also Item 1.A 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 accounted for approximately 6%, 6% and 8% of the Company's total sales in the fiscal years ended September 30, 2007, 2006 and 2005, 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 growing 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 1.A Risk Factors.

In the Communications 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. Other patents covering inbound and outbound signal detection have expired in 2007. The Communications 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. Hexagram holds two significant patents which cover the operation of its STAR<sup>®</sup> network communications systems. These will expire in 2015 and 2016.

With respect to the Filtration segment, an increasing 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.

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.

The Company considers its patent and other intellectual property to be of significant value in each of

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its segments. The Communications 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 Communications 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, including Filtertek, at September 30, 2007 was \$288.1 million, representing an increase of \$34.7 million (13.7%) from the beginning of the fiscal year backlog of \$253.4 million. The backlog of firm orders at September 30, 2007 and September 30, 2006, respectively, was: \$104.9 million and \$78.6 million for Filtration (of which, \$30.5 million and \$21.3 million, respectively, was for Filtertek); \$123.2 million and \$119.0 million for Communications; and \$60.0 million and \$55.8 million for Test. As of September 30, 2007, it is estimated that, excluding Filtertek, domestic customers accounted for approximately 83% of the Company's total firm orders, and international customers accounted for approximately 17%. Of the Company's total backlog of orders at September 30, 2007, excluding Filtertek, approximately 85% is expected to be completed in the fiscal year ending September 30, 2008.

**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 1.A Risk Factors.

In the Communications segment, DCSI has arrangements with three independent manufacturers which produce and supply substantially all of DCSI's end-products. Two of these manufacturers are industry leaders with worldwide operations. Each of these manufacturers is directed by DCSI to purchase certain unique raw material components from suppliers designated by DCSI. DCSI also has contracts with certain of the raw material suppliers, directing them to supply such raw materials to DCSI's manufacturers. Hexagram has contracts with two independent manufacturers which produce and supply substantially all of Hexagram's end-products, as well as contracts with several of the suppliers of the raw materials that are incorporated into such end-products. Hexagram also utilizes one of the primary suppliers used by DCSI, which is another source for the production of Hexagram's end-products. The Company believes that the above-described manufacturers and suppliers will be reliable sources for DCSI's and Hexagram's end-products for the foreseeable future.

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.

The Test segment is a vertically integrated supplier of 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. In fiscal 2007, this segment experienced significant price increases in the metal markets as compared to the prior year.

**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

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particularly intense during periods of economic slowdown, and this has been experienced in the past 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, DCSI and Hexagram are believed to be leading suppliers in the fixed network segment of the automatic meter reading ( AMR ) market. This fixed network segment comprises a substantial part of the total AMR 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 1.A Risk Factors.

Primary competitors of the Communications segment in the utility communications market include Itron, Inc., Cellnet+Hunt, Cannon Technologies Inc., Sensus Metering Systems Inc., Elster Electricity, L.L.C, Comverge, Inc. e-Meter Corporation and Oracle Corporation.

Pall Corporation and SoFrance are the primary competitors in the Filtration markets. Other significant competitors in these markets include Clarcor Inc. and Moog Inc.

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.

**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, 2007, 2006 and 2005, total Company-sponsored research and development expenses were approximately \$25.4 million, \$20.0 million and \$16.8 million, respectively. Total customer-sponsored research and development expenses were approximately \$7.6 million, \$6.3 million and \$5.7 million for the fiscal years ended September 30, 2007, 2006 and 2005, respectively. All of the foregoing expense amounts exclude certain engineering costs primarily associated with product line extensions, modifications and maintenance, which amounted to approximately \$9.1 million, \$9.1 million and \$7.8 million for the fiscal years ended September 30, 2007, 2006 and 2005, 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 statements.

**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,

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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. However, VACCO has had an increasing number of cost plus fixed fee contracts awarded. 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. See Marketing And Sales in this Item 1 and Item 1.A Risk Factors for additional information regarding Government contracts.

### **EMPLOYEES**

As of October 31, 2007, the Company employed approximately 2,700 persons.

### **FINANCING**

On October 6, 2004, the Company entered into a \$100 million five-year revolving credit facility with a \$50 million increase option. This facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of six banks, led by Wells Fargo Bank as agent, with a maturity of October 6, 2009. 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 Capital Resources and Liquidity in the 2007 Annual Report, and Note 9 of the Notes to Consolidated Financial Statements in the 2007 Annual Report, which information is herein incorporated by reference.

Subsequent to September 30, 2007, the Company announced its intention to enter into a new credit facility led by National City Bank in connection with the Company's anticipated acquisition of Doble Engineering Company.

### **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 supply of engineered products marketed to industrial and commercial users. Effective July 10, 2000, ESCO changed its name from ESCO Electronics Corporation to ESCO Technologies Inc.

### **AVAILABLE INFORMATION**

The Company makes available free of charge through its Internet website, [www.escotechnologies.com](http://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 Discussion and Analysis of Financial Condition and Results of Operations (incorporated by reference to Management's Discussion and Analysis appearing in the 2007 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.

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**A SIGNIFICANT PORTION OF COMMUNICATIONS SEGMENT REVENUES IS GENERATED BY A LIMITED NUMBER OF LARGE CONTRACTS.**

A significant portion of the Communications segment's business is dependent on several large contracts with customers. The largest of these are two contracts to separately sell electric and gas automatic meter reading systems to PG&E for its AMI project over a period of approximately five years. These contracts, which represent a potential high source of revenue, are subject to cancellation or reduction in volume by PG&E, delays, regulatory actions and the Company's ability to develop advanced products and successfully perform the contracts. In the third quarter of fiscal 2007, PG&E announced that it was going to evaluate other suppliers' technologies for use in the electric portion of its AMI project. Currently, PG&E has not completed its evaluation. There is no assurance that PG&E will purchase DCSI's systems for all of its electric meters. The loss of revenue which would result from PG&E's selection of other suppliers, cancellations, delays, reductions, regulatory actions or the Company's failure to perform in connection with these contracts could have a material adverse effect on the Company's business, results of operations and financial condition as a whole.

**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. For example, the continued development of the TWACS NG software is critical to the continued sales growth of DCSI. Failure to deliver the final version of the TWACS NG software, to which DCSI has committed under the PG&E contract, could constitute an event of default and adversely impact expected revenues.

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 Communications segment's manufacturing operations relies on a small number of third-party manufacturers to supply the segment's products. For example, DCSI has arrangements with three manufacturers which produce and supply substantially all of DCSI'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 DCSI's products to customers and future sales. Comtrak currently relies on a single source for a major portion of its products.

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, this increases the risk of adverse impacts on the Company's production schedules and profits if the Company's suppliers default in fulfilling their price, quality or delivery obligations.

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**MOST COMMUNICATIONS 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 Communications segment's sales are to or for the utility industry, where sales cycles are long and unpredictable. Most 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 the Company's future revenue.

**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 DCSI and Hexagram meter modules are installed in thousands of residences and other buildings. The replacement/repair costs for such problems could have a material adverse effect on the Company's financial condition. 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.

**INCREASES IN RAW MATERIAL PRICES AND 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.

**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.

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

In fiscal 2007, approximately 23% 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. Changes in the Asian political climate or political changes in specific Asian countries could negatively affect the Company's business. Softness in the European economy could have a significant adverse effect on the Company's European revenues.

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

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foreign customers.

**SALES OF GOVERNMENT PRODUCTS DEPEND UPON CONTINUED GOVERNMENT FUNDING.**

During the past three years, from 6% to 8% of the Company's revenues has 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 severely affect the Company's sales and profit, and could bring about a major restructuring of Company operations, which could result in an adverse effect on its financial results.

For example, a significant part of VACCO's sales involve major 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 and revenue.

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 and revenue 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 evaluate the risks inherent in any particular transaction, no assurances can be made that the Company will 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. No assurances can be made that any such actions will 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.

**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 contractors to produce the end-product, such as an electronic test chamber. 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 or



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even a loss to the Company on a particular project.

**CHANGES IN 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. Changes in such requirements 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.

**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 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, the Company's ability to utilize NOLs, adequacy of the Company's credit facilities and future cash flows, estimates of anticipated contract costs and revenues, the timing, amount and success of claims for research credits, the timing and success of software development efforts and resulting costs, acceptance by PG&E of the final version of DCSI's TWACS NG software, the anticipated value of the PG&E contract, timing of closing the Doble acquisition, the outcome of current litigation, claims and charges, recoverability of deferred tax assets, continued reinvestment of foreign earnings, the impact of FIN 48 and SFAS 157, 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 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 in this Item 1A. Risk Factors; actions by the California Public Utility Commission, PG&E's Board of Directors or PG&E's management impacting PG&E's AMI projects; the timing and success of DCSI's software development efforts; the timing and content of purchase order releases under the PG&E contracts; DCSI's and Hexagram's successful performance of the PG&E contracts; satisfaction of closing conditions to the Doble acquisition; the timing and execution of real estate sales; 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; the timing, pricing and availability of shares offered for sale; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; the successful sale of the Company's Puerto Rico facility; collective bargaining and 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

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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 913,700 square feet of floor space. Approximately 357,300 square feet are owned by the Company and approximately 556,400 square feet are leased. See Note 7 of the Notes to Consolidated Financial Statements in the 2007 Annual Report, which information is herein incorporated by reference. The principal plants and offices are as follows\*:

<b>Location</b>	<b>Size (Sq. Ft.)</b>	<b>Sq. Ft. Owned/Leased</b>	<b>Lease Expiration Date</b>	<b>Principal Use (Operating Segment)</b>
South El Monte, CA	132,100	Owned-100,100 Leased 32,000	1-2-2008	Management, Engineering and Manufacturing (Filtration)
Oxnard, CA	127,400	Owned		Management, Engineering and Manufacturing (Filtration)
Durant, OK	100,000	Owned		Manufacturing (Test)
St. Louis, MO	86,800	Leased	3-31-2013 (one 5-year renewal option)	Management and Engineering (Communications)
Huntley, IL	85,000	Owned		Management and Manufacturing (Filtration)
Cedar Park, TX	70,000	Owned		Management, Engineering and Manufacturing (Test)
Cleveland, OH	59,600	Leased	1-31-2011 (four 3-year renewal options)	Management, Engineering and Manufacturing (Communications)
Glendale Heights, IL	59,400	Leased	3-31-2010 (three 3-year renewal options)	Management, Engineering and Manufacturing (Test)
Eura, Finland	40,900	Owned		Management, Engineering and Manufacturing (Test)

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Beijing, China	39,600	Leased	4,600 sq. ft. Office 8-30-2010 35,000 sq. ft. Plant 12-31-2009	Manufacturing (Test)
St. Louis, MO	33,000	Owned		Management and Engineering (Communications)
Minocqua, WI	30,200	Leased	3-31-2010 (three 3-year renewal options)	Engineering and Manufacturing (Test)

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<b>Location</b>	<b>Size (Sq. Ft.)</b>	<b>Sq. Ft. Owned/Leased</b>	<b>Lease Expiration Date</b>	<b>Principal Use (Operating Segment)</b>
St. Louis, MO	19,000	Leased	8-31-2015 (one 5-year renewal option)	ESCO Headquarters
Wellesley, MA	18,500	Leased	9-30-2012	Management and Engineering (Communications)
Stevenage, England	12,200	Leased	8-11-2017 (Option to terminate in 2012)	Management, Engineering and Manufacturing (Test)

\* The table does not include an owned vacant facility in Patillas, Puerto Rico, consisting of a building of approximately 77,300 square feet, that was formerly used as a Filtration manufacturing facility. The Company ceased operations in this facility in March 2004, and is currently marketing it for sale.

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.

**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**

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The following sets forth certain information as of November 26, 2007 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.

Name	Age	Position(s)
Victor L. Richey, Jr.*	50	Chairman, President, Chief Executive Officer and Director
Gary E. Muenster	47	Senior Vice President and Chief Financial Officer
Alyson S. Barclay	48	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 October 2002, Mr. Richey has been Chief Executive Officer of ESCO, and since April 2003 he has also been Chairman. Since October 2006, he has also been President.

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

Ms. Barclay has been Vice President, Secretary and General Counsel of ESCO since October 1999.

**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 2007 Annual Report. As of November 15, 2007, there were approximately 2,700 record holders of Common Stock (including Company employees holding shares under the Employee Stock Purchase Plan). ESCO does not anticipate, currently or in the foreseeable future, paying cash dividends on the Common Stock, although it reserves the right to do so to the extent permitted by applicable law and agreements. ESCO's dividend policy will be reviewed by the Board of Directors at such future time as may be appropriate in light of relevant factors at that time, based on ESCO's earnings and financial position and such other business considerations as the Board deems relevant. 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	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2007	165,000	\$ 38.54	165,000	0
August 1-31, 2007	0	N.A.	0	0
Sep. 1-30, 2007	0	N.A.	0	0
Total	165,000	\$ 38.54	165,000	935,000

\* On August 8, 2006, the Board of Directors announced a new common stock repurchase program (the 2006 Program) for a maximum of 1,200,000 shares. The 2006 Program will expire September 30, 2008. 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 Note 2 of the Notes to Consolidated Financial Statements appearing in the 2007 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 2007 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

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Quantitative And Qualitative Disclosures About Market Risk in Management's Discussion and Analysis appearing in the 2007 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 23 through 42 and the report thereon of KPMG LLP, an independent registered public accounting firm, appearing on page 44 of the 2007 Annual Report.

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

None.

**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, 2007. 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 43 and 45, respectively, in the 2007 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, 2007 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 2008 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 2008 Proxy Statement is hereby incorporated by reference.

Information appearing under Section 16(a) Beneficial Ownership Reporting Compliance in the 2008 Proxy Statement is hereby incorporated by reference.

The Company has adopted codes of ethics which apply to its chief executive officer, its chief financial officer 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](http://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.



**Table of Contents****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 2008 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 2008 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, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1) (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1) (c)
Equity compensation plans approved by security holders (2)	1,723,001(3)	\$ 30.35 (4)	1,749,874 (5)(6)
Equity compensation plans not approved by security holders	0	N/A	257,498 (7)
Total	1,723,001	\$ 30.35	2,007,372

(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 his 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 his stock option up to five years 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

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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, subsequent to September 30, 2007, 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 164,060 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 164,060 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 4,144 Common Shares under the 1999 Stock Option Plan, 278,987 Common Shares under the 2001 Stock Incentive Plan and 1,466,743 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, 2007, 36,307 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 2008 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.



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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 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 may 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 2008 Proxy Statement is hereby incorporated by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

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

1. The Consolidated Financial Statements of the Company on pages 23 through 42 and the Reports of Independent Registered Public Accounting Firm thereon of KPMG LLP appearing on pages 44 and 45 of the 2007 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
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## 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]



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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]

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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]
10.22	Form of Notice of Award Performance Accelerated Restricted Stock *	Incorporated by Reference, Exhibit 10.26[17]

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Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
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	Notice of Award restricted stock award to V.L. Richey, Jr. (identical documents except for number of shares awarded for: C.J. Kretschmer 4,750 shares; G.E. Muenster 2,400 shares; A.S. Barclay 1,800 shares)*	Incorporated by Reference, Exhibit 10.3[19]
10.29	2004 Incentive Compensation Plan*	Incorporated by Reference, Appendix B[18]
10.30	Summary of Non-Employee Directors Compensation*	Incorporated by Reference, Exhibit 10.1[20]
10.31	Performance Compensation Plan Amended and Restated as of November 25, 2002*	Incorporated by Reference, Exhibit 10.2[20]
10.32	2005 Performance Measures and Evaluation Criteria under Performance Compensation Plan*	Incorporated by Reference, Exhibit 10.3[20]
10.33	Awards to Executive Officers Not Reported on Form 8-K, October 4, 2004*	Incorporated by Reference, Exhibit 10.4[20]
10.34	Form of Notice of Award Performance-Accelerated Restricted Stock under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.5[20]
10.35	Form of Incentive Stock Option Agreement under 2004 Incentive Compensation Plan*	Incorporated by Reference, Exhibit 10.6[20]

10.36	Form of Nonqualified Stock Option Agreement under 2004 Incentive Compensation Plan*	Incorporated by Reference, Exhibit 10.7[20]
10.37	Form of Incentive Stock Option Agreement under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.8[20]
10.38	Form of Nonqualified Stock Option Agreement under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.9[20]
10.39	Second Amendment to 2001 Stock Incentive Plan effective August 3, 2006*	Incorporated by Reference, Exhibit 10.39[22]

**Table of Contents**

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
10.40	First Amendment to 2004 Incentive Compensation Plan effective August 3, 2006*	Incorporated by Reference, Exhibit 10.40[22]
10.41	Employment Agreement with C.J. Kretschmer effective October 1, 2006*	Incorporated by Reference, Exhibit 10.41[22]
10.42	Form of Exhibits ( Non-Compete and Change of Control ) to Option Agreements listed as 10.35 and 10.36, above*	
10.43	Third Amendment to Directors Extended Compensation Plan effective October 3, 2007*	
10.44	Second Amendment to 2004 Incentive Compensation Plan effective October 3, 2007*	
10.45	Third Amendment to 2001 Stock Incentive Plan effective October 3, 2007*	
10.46	First Amendment to Incentive Compensation Plan for Executive Officers effective October 3, 2007*	
10.47	Amendment to 1999 Stock Option Plan effective October 3, 2007*	
10.48	Amendment to Severance Plan effective October 3, 2007*	
10.49	Amendment to Performance Compensation Plan effective October 3, 2007*	
10.50	Amendment to Compensation Plan for Non-Employee Directors effective October 3, 2007*	
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2007: Management's Discussion and Analysis (pgs. 12-22)	



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Consolidated Financial Statements (pgs. 23-42) and Report of Independent Registered Public Accounting Firm (p. 44)

Management's Report on Internal Control over Financial Reporting (p. 43)

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)

**Table of Contents**

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

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[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.

\* 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.



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**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.

Date: November 26, 2007

By /s/ V.L. Richey, Jr.  
V.L. Richey, Jr.  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below effective November 26, 2007, by the following persons on behalf of the registrant and in the capacities indicated.

SIGNATURE	TITLE
/s/ V.L. Richey, Jr. V.L. Richey, Jr.	Chairman, President, Chief Executive Officer and Director
/s/ G.E. Muenster G.E. Muenster	Senior Vice President and Chief Financial Officer, Principal Accounting Officer
/s/ J.M. McConnell J.M. McConnell	Director
/s/ L.W. Solley L.W. Solley	Director
/s/ J.M. Stolze J.M. Stolze	Director
/s/ D.C. Trauscht D.C. Trauscht	Director
/s/ J.D. Woods J.D. Woods	Director

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INDEX TO EXHIBITS

Exhibits are listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K.

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21	Subsidiaries of ESCO
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31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer

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Exhibit No.	Exhibit
32	Certification of Chief Executive Officer and Chief Financial Officer

See Item 15(a)3 for a list of exhibits incorporated by reference.

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