UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-Q

(MARK ONE)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO ______

COMMISSION FILE NUMBER 1-10596

ESCO TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| MISSOURI | 43-1554045 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 8888 LADUE ROAD, SUITE 200<br>ST. LOUIS, MISSOURI | 63124-2090 |
| (Address of principal executive offices) | (Zip Code) |

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No___

The number of shares of the registrant's common stock outstanding at April 30, 2005 was 12,708,021.

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except per share amounts)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2005 | 2004 |
| Net sales | $ 106,160 | 102,171 |
| Costs and expenses: | | |
| Cost of sales | 68,989 | 70,781 |
| Selling, general and administrative expenses | 21,269 | 19,111 |
| Interest income | (303) | (483) |
| Other (income) expense, net | (236) | 513 |
| Total costs and expenses | 89,719 | 89,922 |

| | | |
|---|---|---|
| Earnings before income taxes | 16,441 | 12,249 |
| Income tax expense | 6,014 | 4,684 |
| Net earnings from continuing operations | 10,427 | 7,565 |
| Loss from discontinued operations, net of tax benefit of $(551) in 2004 | - | (2,200) |
| Net earnings | $ 10,427 | 5,365 |
| Earnings (loss) per share: | | |
| Basic - Continuing operations | $ 0.83 | 0.59 |
| - Discontinued operations | - | (0.17) |
| - Net earnings | $ 0.83 | 0.42 |
| Diluted - Continuing operations | $ 0.80 | 0.57 |
| - Discontinued operations | - | (0.17) |
| - Net earnings | $ 0.80 | 0.40 |

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except per share amounts)

| | Six Months Ended March 31, 2005 | Six Months Ended March 31, 2004 |
|---|---|---|
| Net sales | $ 210,535 | 198,567 |
| Costs and expenses: | | |
| Cost of sales | 137,498 | 137,051 |
| Selling, general and administrative expenses | 41,082 | 37,880 |
| Interest income | (783) | (519) |
| Other (income) expense, net | (690) | 1,127 |
| Total costs and expenses | 177,107 | 175,539 |
| Earnings before income taxes | 33,428 | 23,028 |
| Income tax expense | 12,479 | 8,875 |
| Net earnings from continuing operations | 20,949 | 14,153 |
| Loss from discontinued operations, net of tax benefit of $(1,208) in 2004 | - | (2,637) |
| Net earnings | $ 20,949 | 11,516 |
| Earnings (loss) per share: | | |
| Basic - Continuing operations | $ 1.65 | 1.10 |
| - Discontinued operations | - | (0.20) |
| - Net earnings | $ 1.65 | 0.90 |
| Diluted - Continuing operations | $ 1.60 | 1.06 |
| - Discontinued operations | - | (0.19) |
| - Net earnings | $ 1.60 | 0.87 |

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

| | March 31, 2005 (Unaudited) | September 30, 2004 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 74,567 | 72,281 |
| Accounts receivable, net | 72,624 | 77,729 |
| Costs and estimated earnings on long-term contracts, less progress billings of $4,867 and $2,210, respectively | 2,680 | 2,476 |
| Inventories | 49,498 | 44,287 |
| Current portion of deferred tax assets | 21,057 | 27,810 |
| Other current assets | 8,933 | 8,947 |
| Total current assets | 229,359 | 233,530 |
| Property, plant and equipment, net | 68,919 | 69,103 |
| Goodwill | 69,215 | 68,949 |
| Other assets | 29,860 | 30,858 |
| | $ 397,353 | 402,440 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term borrowings and current maturities of long-term debt | $ 79 | 151 |
| Accounts payable | 31,610 | 32,455 |
| Advance payments on long-term contracts, less costs incurred of $8,722 and $8,017, respectively | 3,325 | 4,305 |
| Accrued salaries | 9,350 | 11,896 |
| Accrued taxes | 2,286 | 4,454 |
| Accrued other expenses | 13,640 | 15,061 |
| Total current liabilities | 60,290 | 68,322 |
| Deferred income | 2,509 | 2,738 |
| Pension obligations | 13,904 | 13,899 |
| Other liabilities | 10,571 | 9,497 |
| Long-term debt | 386 | 368 |
| Total liabilities | 87,660 | 94,824 |
| 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 14,255,019 and 14,148,902 shares, respectively | 143 | 142 |
| Additional paid-in capital | 225,892 | 221,711 |
| Retained earnings | 136,912 | 115,963 |
| Accumulated other comprehensive loss | (1,849) | (3,698) |
| | 361,098 | 334,118 |
| Less treasury stock, at cost: 1,590,213 and 1,257,352 common shares, respectively | (51,405) | (26,502) |
| Total shareholders' equity | 309,693 | 307,616 |
| | $ 397,353 | 402,440 |

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

| | Six Months Ended March 31, 2005 | Six Months Ended March 31, 2004 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $ 20,949 | 11,516 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Net loss from discontinued operations, net of tax | - | 2,637 |
| Depreciation and amortization | 6,080 | 5,904 |
| Changes in operating working capital | (1,504) | 2,309 |
| Effect of deferred taxes | 3,246 | 186 |
| Other | 337 | 1,768 |
| Net cash provided by operating activities-continuing operations | 29,108 | 24,320 |
| Net cash used by discontinued operations | - | (2,246) |
| Net cash provided by operating activities | 29,108 | 22,074 |
| Cash flows from investing activities: | | |
| Proceeds from Riverhead note receivable | - | 2,120 |
| Capital expenditures - continuing operations | (4,568) | (4,803) |
| Capital expenditures - discontinued operations | - | (1,379) |
| Net cash used by investing activities | (4,568) | (4,062) |
| Cash flows from financing activities: | | |
| Net decrease in short-term borrowings | - | (9,635) |
| Proceeds from long-term debt | - | 378 |
| Principal payments on long-term debt | (81) | (76) |
| Purchases of common stock into treasury | (24,928) | - |
| Other (including exercise of stock options) | 2,755 | 708 |
| Net cash used by financing activities | (22,254) | (8,625) |
| Net increase in cash and cash equivalents | 2,286 | 9,387 |
| Cash and cash equivalents, beginning of period | 72,281 | 31,285 |
| Cash and cash equivalents, end of period | $ 74,567 | 40,672 |

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. 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 accounting principles generally accepted in the United States of America (GAAP). For further information refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

The results for the three and six-month periods ended March 31, 2005 are not necessarily indicative of the results for the entire 2005 fiscal year.

## 2. DISCONTINUED OPERATIONS - 2004

Microfiltration and Separations Businesses (MicroSep) The MicroSep businesses consisted of PTI Advanced Filtration Inc., PTI Technologies Limited, and PTI S.p.A. Effective April 2, 2004, the Company completed the sale of PTI Advanced Filtration Inc. (Oxnard, California) and PTI Technologies Limited (Sheffield, England) to domnick hunter group plc for $18 million in cash. On June 8, 2004, the Company completed the sale of PTI S.p.A. (Milan, Italy) to a group of investors comprised of the subsidiary's senior management for $5.3 million. An after-tax loss of $2.2 million and $2.6 million related to the MicroSep businesses is reflected in the Company's fiscal 2004 results from discontinued operations for the three and six-month periods ended March 31, 2004, respectively.

## 3. EARNINGS PER SHARE (EPS)

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Weighted Average Shares Outstanding - Basic | 12,633 | 12,874 | 12,722 | 12,857 |
| Dilutive Options and Restricted Shares | 384 | 451 | 396 | 448 |
| Adjusted Shares- Diluted | 13,017 | 13,325 | 13,118 | 13,305 |

Options to purchase 1,500 shares of common stock at a price of $77.71 and options to purchase 104,050 shares of common stock at prices ranging from $45.36 - $48.58 were outstanding during the six-month periods ended March 31, 2005 and 2004, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares. The options expire at various periods through 2013. Approximately 24,000 and 16,000 restricted shares were excluded from the respective computation of diluted EPS based upon the application of the treasury stock method for the three month periods ended March 31, 2005 and 2004, respectively.

Had compensation cost for the Company's stock option plans and restricted share plans been determined based on the fair value at the grant date for awards outstanding during the three and six-month periods ended March 31, 2005 and 2004 consistent with the provisions of SFAS 148, the Company's net earnings and net earnings per share would have been as shown in the table below:

(Unaudited)
(Dollars in thousands, except per share amounts)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Net earnings, as reported | $10,427 | 5,365 | $20,949 | 11,516 |
| Add: stock-based employee compensation expense included in reported net earnings, net of tax | 381 | 418 | 750 | 875 |
| Less: total stock-based employee compensation expense determined under fair value based methods, net of tax | (927) | (704) | (1,844) | (1,423) |
| Pro forma net earnings | $ 9,881 | 5,079 | $19,855 | 10,968 |
| Net earnings per share: | | | | |
| Basic - as reported | $ 0.83 | 0.42 | $ 1.65 | 0.90 |
| Basic - pro forma | 0.78 | 0.39 | 1.56 | 0.85 |
| Diluted - as reported | $ 0.80 | 0.40 | $1.60 | 0.87 |
| Diluted - pro forma | 0.76 | 0.38 | 1.52 | 0.82 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the three and six-month periods ended March 31, 2005 and 2004, respectively: expected dividend yield of 0% in both periods; expected volatility of 20.3% and 20.0%; risk-free interest rate of 4.2% and 3.8%; and expected life based on historical exercise periods of 4.25 years and 4.22 years.

4. INVENTORIES

Inventories consist of the following (in thousands):

| | March 31, 2005 | September 30, 2004 |
|---|---|---|
| Finished goods | $12,607 | 11,444 |
| Work in process, including long- term contracts | 15,116 | 13,759 |
| Raw materials | 21,775 | 19,084 |
| Total inventories | $ 49,498 | 44,287 |

5. COMPREHENSIVE INCOME

Comprehensive income for the three-month periods ended March 31, 2005 and 2004 was $8.9 million and $5.2 million, respectively. Comprehensive income for the six-month periods ended March 31, 2005 and 2004 was $22.8 million and $13.8 million, respectively. For the three and six-month periods ended March 31, 2005, the Company's comprehensive income was negatively impacted by foreign currency translation adjustments of $1.6 million and positively impacted by foreign currency translation adjustments of $1.8 million, respectively. For the three and six-month periods ended March 31, 2004, the

Company's comprehensive income was positively impacted by foreign currency translation adjustments of $2.5 million and $2.3 million, respectively.

6. BUSINESS SEGMENT INFORMATION

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company operates in three segments: Filtration/Fluid Flow, Communications and Test.

Management evaluates and measures the performance of its operating segments based on "Net Sales" and "EBIT", which are detailed in the table below. EBIT is defined as earnings from continuing operations before interest and taxes. The table below is presented for continuing operations and excludes discontinued operations.

| ($ in thousands) | Three Months ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| NET SALES | 2005 | 2004 | 2005 | 2004 |
| Filtration/Fluid Flow | $ 40,975 | 42,219 | $ 84,979 | 82,128 |
| Communications | 36,085 | 30,359 | 69,618 | 61,773 |
| Test | 29,100 | 29,593 | 55,938 | 54,666 |
| Consolidated totals | $106,160 | 102,171 | $210,535 | 198,567 |
| EBIT | | | | |
| Filtration/Fluid Flow | $ 5,041 | 4,147(1) | $ 12,100 | 7,658(2) |
| Communications | 10,632 | 7,245 | 20,254 | 14,612 |
| Test | 3,338 | 3,277 | 5,420 | 5,474 |
| Corporate | (2,873) | (2,903) | (5,129) | (5,235) |
| Consolidated EBIT | 16,138 | 11,766 | 32,645 | 22,509 |
| Add: Interest income | 303 | 483 | 783 | 519 |
| Earnings before income taxes | $ 16,441 | 12,249 | $ 33,428 | 23,028 |

(1) Includes $0.6 million of exit costs related to the Filtertek Puerto Rico facility.

(2) Includes $1.3 million of exit costs related to the Filtertek Puerto Rico facility.

7. RETIREMENT AND OTHER BENEFIT PLANS

A summary of net periodic benefit expense for the Company's defined benefit plans and postretirement healthcare and other benefits for the three and six-month periods ended March 31, 2005 and 2004 are shown in the following tables. Effective December 31, 2003, the Company's defined benefit plan was frozen and no additional benefits will be accrued after that date. Net periodic benefit cost for each period presented is comprised of the following:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2005 | 2004 | 2005 | 2004 |
| Defined benefit plans | | | | |
| Service cost | $ - | 140 | $ - | 280 |
| Interest cost | 663 | 623 | 1,325 | 1,245 |
| Expected return on assets | (713) | (675) | (1,425) | (1,350) |
| Amortization of: | | | | |
| Prior service cost | - | - | - | - |
| Actuarial (gain) loss | 125 | 100 | 250 | 200 |
| Net periodic benefit cost | $ 75 | 188 | $ 150 | 375 |

Net periodic postretirement (retiree and medical) benefit cost for each period presented is comprised of the following:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2005 | 2004 | 2005 | 2004 |
| Service cost | $ 8 | 11 | $15 | 16 |

| | | | | |
|---|---|---|---|---|
| Interest cost | 10 | 17 | 20 | 25 |
| Amortization of actuarial gain | (2) | (12) | (9) | (25) |
| | -- | --- | -- | --- |
| Net periodic postretirement benefit cost | $16 | 16 | $26 | 16 |
| | === | == | === | == |

8. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (R), "Share-Based Payment" (SFAS No. 123 (R)). This Statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB No. 25,"Accounting for Stock Issued to Employees." SFAS 123 (R) requires all stock-based compensation to be recognized as an expense in the financial statements and that such cost be measured according to the fair value of stock options. SFAS 123 (R) will be effective for the first annual period beginning after June 15, 2005. The Company plans to adopt the provisions of this Statement in the first quarter of fiscal 2006 on a prospective basis. The Company currently provides the pro forma disclosures required by SFAS No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosure," on a quarterly basis (see "Note 3 - Earnings Per Share").

In December 2004, the FASB issued FASB Staff Position FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (FSP 109-2)." The American Jobs Creation Act of 2004, (the "Act") provides for a special one-time deduction of 85 percent of certain foreign earnings repatriated into the U.S. from non-U.S. subsidiaries through September 30, 2006. The Company is currently evaluating the merits of repatriating funds under the Act. The range of reasonably possible amounts of unremitted earnings that are being considered for repatriation is between zero and $29.4 million, which would require the Company to pay income taxes in the range of zero to $2.1 million. Federal income taxes on the repatriated amounts would be based on the 5.25% effective statutory rate as provided in the Act, plus applicable withholding taxes. To date, the Company has not provided for income taxes on unremitted earnings generated by non-U.S. subsidiaries given the Company's historical intent to permanently invest these earnings abroad. As a result, additional taxes may be required to be recorded for any funds repatriated under the Act. The Company expects to complete its evaluation of the repatriation provision of the Act by September 30, 2006.

## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

The following discussion refers to the Company's results from continuing operations, except where noted. The Microfiltration and Separations businesses (MicroSep), which were sold in the third quarter of fiscal 2004, are accounted for as discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the MicroSep businesses are reflected as discontinued operations in the financial statements and related notes for fiscal 2004.

### NET SALES

Net sales increased $4.0 million (3.9%) to $106.2 million for the second quarter of fiscal 2005 from $102.2 million for the second quarter of fiscal 2004. Net sales increased $11.9 million (6.0%) to $210.5 million for the first six months of fiscal 2005 from $198.6 million for the first six months of fiscal 2004. The sales increase for the second quarter of fiscal 2005 and in the first six months of fiscal 2005 as compared to the prior year periods is primarily due to an increase in sales within the Communications segment.

- -Filtration/Fluid Flow

Net sales decreased $1.2 million (2.8%) to $41.0 million for the second quarter of fiscal 2005 from $42.2 million for the second quarter of fiscal 2004. Net sales increased $2.9 million (3.5%) to $85.0 million for the first six months of fiscal 2005 from $82.1 million for the first six months of fiscal 2004. The sales decrease during the fiscal quarter ended March 31, 2005 as compared to the prior year quarter is mainly due to the following: lower defense shipments at VACCO of $1.1 million; a net sales decrease at Filtertek of $0.9 million driven by lower automotive shipments; partially offset by higher commercial and military aerospace shipments at PTI of $0.8 million. The sales increase for the first six months of fiscal 2005 as compared to the prior year period is mainly due to an increase in shipments of commercial and military aerospace products at PTI of $3.0 million.

- -Communications

For the second quarter of fiscal 2005, net sales of $36.1 million were $5.7 million, or 18.8% higher than the $30.4 million of net sales recorded in the second quarter of fiscal 2004. Net sales of $69.6 million in the first six months of fiscal 2005 were $7.8 million, or 12.6% higher than the $61.8 million recorded in the first six months of fiscal 2004. The sales increase in the second quarter of fiscal 2005 as compared to the prior year period was the result of higher shipments of Comtrak's SecurVision video security products (which represented $3.1 million of the sales increase) and higher shipments of automatic meter reading (AMR) equipment to the electric utility cooperative (COOP) market and other customers (which represented $2.6 million of the sales increase). The increase in sales in the first six months of fiscal 2005 as compared to the prior year period was the result higher shipments of Comtrak's video security products, which contributed $9.7 million to the sales increase, partially offset by a decrease in sales of AMR equipment of $1.9 million. Comtrak's sales were $3.5 million for the second quarter of fiscal 2005 as compared to $0.4 million for the prior year second quarter and $10.6 million for the first six months of fiscal 2005 as compared to $0.9 million for the prior year six-month period.

The decrease in sales of AMR equipment for the first six months of fiscal 2005 as compared to the prior year period is due to the wind-down of the PPL Electric Utilities Corporation (PPL) contract. Sales to PPL were $0.4 million and $7.4 million in the fiscal quarters ended March 31, 2005 and 2004, respectively, and $1.4 million and $19.9 million in the first six months of fiscal 2005 and 2004, respectively. The decrease in sales to PPL was partially offset by higher AMR product sales to the COOP market and other customers. DCSI's sales to COOP's and other customers were $32.2 million and $22.5 million in the fiscal quarters ended March 31, 2005 and 2004, respectively, and were $57.6 million and $41.0 million for the first six months of fiscal 2005 and 2004, respectively.

- -Test
Net sales decreased $0.5 million (1.7%) to $29.1 million for the second quarter of fiscal 2005 from $29.6 million for the second quarter of fiscal 2004. Net sales increased $1.2 million (2.2%) to $55.9 million for the first six months of fiscal 2005 from $54.7 million for the first six months of fiscal 2004. The sales decrease during the fiscal quarter ended March 31, 2005 as compared to the prior year quarter is mainly due to a decrease in sales from the Company's European operations of approximately $3.7 million due to the completion of two large test chamber projects. This decrease was partially offset by an increase in sales from the Company's U.S. operations of approximately $2.0 million (driven by the increase of government shielding projects), an increase in sales from the Company's Asian operations of approximately $1.3 million and an increase in sales of antennas and other components. The sales increase for the first six months of fiscal 2005 as compared to the prior year period is mainly due to additional test chamber installations, component sales, and government shielding projects.

ORDERS AND BACKLOG
Backlog was $253.9 million at March 31, 2005 compared with $249.1 million at September 30, 2004. The Company received new orders totaling $215.4 million in the first six months of fiscal 2005. New orders of $99.8 million were received in the first six months of fiscal 2005 related to Filtration/Fluid Flow products, $62.7 million related to Communications products (includes $55.7 million of new orders related to AMR products), and $53.0 million related to Test products. The new orders received in the Filtration/Fluid Flow segment include a $15.9 million multi-year order for quiet valves and manifold assemblies used on the Virginia Class Submarine.

GROSS PROFIT
The Company computes gross profit as net sales less cost of sales. The gross profit margin is the gross profit divided by net sales, expressed as a percentage. The gross profit margin was 35.0% and 30.7% in the second quarter of fiscal 2005 and 2004, respectively. The gross profit margin was 34.7% and 31.0% for the first six months of fiscal 2005 and 2004, respectively. The increase in gross profit margins in the second quarter of fiscal 2005 and the first six months of fiscal 2005 was mainly due to higher margins on shipments in the Communications segment due to the favorable sales mix of AMR products resulting from additional sales to the COOP market, and additional shipments of Comtrak's products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
Selling, general and administrative (SG&A) expenses for the second quarter of fiscal 2005 were $21.3 million (20.0% of net sales), compared with $19.1 million (18.7% of net sales) for the prior year period. For the first six months of fiscal 2005, SG&A expenses were $41.1 million (19.5% of net sales) compared with $37.9 million (19.1% of net sales) for the prior year period. The increase in SG&A spending in the fiscal quarter ended March 31, 2005 and in the first six months of fiscal 2005 as compared to the respective prior year periods is due to increased personnel costs ($2.1 million and $2.8 million, respectively) associated with marketing, project management and new product development within the Communications segment to further penetrate the investor owned utility market.

OTHER (INCOME) EXPENSES, NET
Other (income) expenses, net, were $(0.2) million for the quarter ended March 31, 2005 compared to $0.5 million for the prior year quarter. Other (income) expenses, net, were $(0.7) million for the first six months of fiscal 2005 compared to $1.1 million for the prior year period. Principal components of

other (income) expenses, net, for the first six months of fiscal 2005 included $1.2 million of royalty income partially offset by $0.5 million of amortization expense of identifiable intangible assets (primarily patents, licenses and software). Principal components of other (income) expenses, net, for the first six months of fiscal 2004 included $0.9 million of exit costs related to the Filtertek Puerto Rico facility and $0.5 million of amortization of identifiable intangible assets (primarily patents, licenses and software).

EBIT
The Company evaluates the performance of its operating segments based on EBIT, defined below. EBIT was $16.1 million (15.2% of net sales) for the second quarter of fiscal 2005 and $11.8 million (11.5% of net sales) for the second quarter of fiscal 2004. For the first six months of fiscal 2005, EBIT was $32.6 million (15.5% of net sales) and $22.5 million (11.3% of net sales) for the first six months of fiscal 2004. EBIT for the first six months of fiscal 2004 was negatively impacted by $1.3 million of severance and exit costs related to the Filtertek Puerto Rico facility (Filtration/Fluid Flow segment).

This Form 10-Q contains the financial measure"EBIT", which is not calculated in accordance with generally accepted accounting principles in the United States of America (GAAP). EBIT provides investors and Management with an alternative method for assessing the Company's operating results. The Company defines "EBIT" as earnings from continuing operations before interest and taxes. Management evaluates the performance of its operating segments based on EBIT and believes that EBIT is useful to investors to demonstrate the operational profitability of the Company's business segments by excluding interest and taxes, which are generally accounted for across the entire Company on a consolidated basis. EBIT is also one of the measures Management uses to determine resource allocations within the Company and incentive compensation. The following table represents a reconciliation of EBIT to net earnings from continuing operations.

| ($ in thousands) | Three Months ended March 31, | | Six Months ended March 31, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| EBIT | $16,138 | 11,766 | $32,645 | 22,509 |
| Interest income / (expense) | 303 | 483 | 783 | 519 |
| Less: Income taxes | 6,014 | 4,684 | 12,479 | 8,875 |
| Net earnings from continuing operations | $10,427 | 7,565 | $20,949 | 14,153 |

- -Filtration/Fluid Flow
EBIT was $5.0 million (12.3% of net sales) and $4.2 million (10.0% of net sales) in the second quarters of fiscal 2005 and 2004, respectively, and $12.1 million (14.2% of net sales) and $7.7 million (9.4% of net sales) in the first six months of fiscal 2005 and 2004, respectively. For the second quarter of fiscal 2005 as compared to the prior year quarter, EBIT increased $0.8 million due to the following: a $1.0 million increase at Filtertek due to improved operating efficiencies, which included $0.3 million of cost reimbursement mentioned below, and royalty income from license agreements; a $0.6 million increase at PTI due to higher aerospace sales; partially offset by a $0.8 million decrease at VACCO due to lower defense shipments. For the first six months of fiscal 2005 as compared to the prior year period, EBIT increased $4.4 million due to the following: a $2.8 million increase at Filtertek, which included $0.9 million of cost reimbursement from a medical device customer related to a shortfall between its actual purchases versus the minimum contractually guaranteed amount (the first six months of fiscal 2004 included $1.3 million of exit costs related to the Puerto Rico facility); and a $1.6 million increase at PTI due to higher shipments of aerospace products.

- -Communications
EBIT in the second quarter of fiscal 2005 was $10.6 million (29.5% of net sales) as compared to $7.2 million (23.9% of net sales) in the prior year period. For the first six months of fiscal 2005, EBIT was $20.3 million (29.1% of net sales) as compared to $14.6 million (23.7% of net sales) in the prior year period. The increase in EBIT in the second quarter of fiscal 2005 and in the first six months of fiscal 2005 as compared to the prior year periods is mainly due to the additional shipments of Comtrak's products, as well as the favorable sales mix of AMR products resulting from additional sales to the COOP market, and cost reductions realized on certain AMR components. The Company expects to continue to increase its engineering and new product development expenditures in the Communications segment in order to continue its growth in the AMR markets, and to further differentiate its technology from the competition.

- -Test

EBIT in the second quarter of fiscal 2005 was $3.3 million (11.5% of net sales) as compared to $3.3 million (11.1% of net sales) in the prior year period. For the first six months of fiscal 2005, EBIT was $5.4 million (9.7% of net sales) as compared to $5.5 million (10.0% of net sales) in the prior year period. In the second quarter of fiscal 2005, EBIT margin was higher than the prior year period due primarily to the favorable changes in sales mix resulting from additional sales of antennas and other components. The decrease in EBIT margin in the first six months of fiscal 2005 as compared to the prior year period is mainly the result of installation cost overruns incurred during the first quarter of fiscal 2005 on certain government shielding projects being installed in challenging areas throughout the world, as well as increased costs of steel and copper.

- -Corporate
Corporate costs included in EBIT were $(2.9) million and $(5.1) million for the three and six-month periods ended March 31, 2005, respectively, compared to $(2.9) million and $(5.2) million for the respective prior year periods.

INTEREST INCOME, NET
Interest income, net, was $0.3 million and $0.8 million for the three and six-month periods ended March 31, 2005, respectively, compared to interest income of $0.5 million for both respective prior year periods. The decrease in interest income in the second quarter of fiscal 2005 as compared to the prior year quarter is due to $0.3 million of interest received on the collection of the Riverhead note receivable in February 2004. The increase in interest income in the first six months of fiscal 2005 as compared to the respective prior year period is due to higher average cash balances on hand in fiscal 2005 and a tax refund of lookback interest.

## INCOME TAX EXPENSE

The second quarter fiscal 2005 effective income tax rate was 36.6% compared to 38.2% in the second quarter of fiscal 2004. The effective income tax rate in the first six months of fiscal 2005 was 37.3% compared to 38.5% in the prior year period. The decrease in the effective income tax rate in the first six months of fiscal 2005 is primarily due to the timing and volume of profit contributions of the Company's foreign operations. The Company estimates the annual effective tax rate for fiscal 2005 to be approximately 37.5%.

## CAPITAL RESOURCES AND LIQUIDITY

Working capital increased to $169.1 million at March 31, 2005 from $165.2 million at September 30, 2004. During the first six months of fiscal 2005, cash increased $2.3 million, net of the $24.9 million share repurchase. Accounts receivable decreased by $5.1 million in the first six months of fiscal 2005, of which $4.0 million represented collections from two significant customers (PREPA and Boeing). Inventories increased by $5.2 million in the first six months of fiscal 2005, of which $3.2 million related to the Test segment due to the timing of sales and $1.3 million was to build safety stock within the Communications segment due to a change in suppliers. In addition, accounts payable and accrued expenses decreased by $7.0 million in the first six months of fiscal 2005 primarily due to the timing of vendor payments.

Net cash provided by operating activities from continuing operations increased $4.8 million to $29.1 million in the first six months of fiscal 2005, compared to $24.3 million in the same period of fiscal 2004.

During the second quarter of fiscal 2005, Filtertek signed an agreement to license certain of its patents related to needle-free connectors to a third party for $1.5 million in cash and recognized $0.2 million of royalty income related to this transaction, after deducting $0.2 million of professional fees. The unrealized gain of $1.1 million will be recognized on a straight-line basis over the remaining patent life, through 2011.

Capital expenditures for continuing operations were $4.6 million and $4.8 million in the first six months of fiscal 2005 and 2004, respectively. Major expenditures in the current period included manufacturing equipment and facility modifications used in the Filtration/Fluid Flow businesses.

At March 31, 2005, the Company has approximately $7.0 million in commitments in the Communications segment to further differentiate its products and to further penetrate the investor owned utility market. This amount is expected to be spent during fiscal 2005.

The closure and relocation of the Filtertek Puerto Rico facility was completed in March 2004. The Puerto Rico facility is included in other current assets with a carrying value of $3.6 million at March 31, 2005. The facility continues to be actively marketed for sale.

In October 2004, the Company entered into a new $100 million five-year revolving bank credit facility with a $50 million increase option, which replaced its then-existing credit facility. At March 31, 2005, the Company had approximately $98.6 million available to borrow under the credit facility in addition to $74.6 million cash on hand. Against the $100 million available under the revolving credit facility at March 31, 2005, the Company had outstanding letters of credit of $1.4 million. Cash flow from operations and borrowings under the Company's bank credit facility are expected to meet the Company's capital requirements and operational needs for the foreseeable future.

## STOCK REPURCHASE PROGRAM

In August 2004, the Company's Board of Directors approved the extension of the previously authorized (February 2001) open market repurchase program of up to 1.1 million shares, which is subject to market conditions and other factors and covers the period ending September 30, 2006. During the first quarter of fiscal 2005, the Company repurchased 335,036 shares under this program for a total of $24.9 million and has approximately 575,000 shares remaining under the program at March 31, 2005. There were no stock repurchases during the second quarter of fiscal 2005.

## CRITICAL ACCOUNTING POLICIES

Management has evaluated the accounting policies used in the preparation of the Company's financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving management judgments and estimates may be found in the Critical Accounting Policies Section of Management's Discussion and

Analysis and in Note 1 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2004, at Exhibit 13.

## OTHER MATTERS

### Contingencies

As a normal incident of the businesses in which the Company is engaged, various claims, charges and litigation are asserted or commenced against the Company. In the opinion of Management, final judgments, if any, which might be rendered against the Company in current litigation are adequately reserved, covered by insurance, or would not have a material adverse effect on its financial statements.

## 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. Forward looking statements include those relating to the estimates or projections made in connection with the Company's accounting policies, annual effective tax rate, timing of Communications segment commitments and expenditures, continued growth in the AMR market, outcome of current claims and litigation, future cash flow, and capital requirements and operational needs for the foreseeable future and the amounts, if any, and timing of foreign earnings repatriated into the U.S. and the additional taxes resulting from such repatriation. Investors are cautioned that such statements are only predictions, and speak only as of the date of this report. 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: weakening of economic conditions in served markets; changes in customer demands or customer insolvencies; competition; intellectual property rights; successful execution of the planned sale of the Company's Puerto Rico facility; material changes in the costs of certain raw materials including steel, copper and petroleum based resins; delivery delays or defaults by customers; termination for convenience of customer contracts; timing and magnitude of future contract awards; performance issues with key suppliers, customers and subcontractors; collective bargaining and labor disputes; changes in laws and regulations including changes in accounting standards and taxation requirements; changes in foreign or U.S. business conditions affecting the distribution of foreign earnings; costs relating to environmental matters; litigation uncertainty; and the Company's successful execution of internal operating plans.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In August 2004, the Company's Board of Directors approved the extension of the previously authorized (February 2001) open market repurchase program of up to 1.1 million shares, which is subject to market conditions and other factors and covers the period ending September 30, 2006. There were no stock repurchases during the second quarter of fiscal 2005.

## 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. There has been no material change to the Company's risks since September 30, 2004. Refer to the Company's 2004 Annual Report on Form 10-K for further discussion about market risk.

## ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of Management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of that date. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

# PART II OTHER INFORMATION

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Annual Meeting of the Company's shareholders was held on Thursday, February 3, 2005, to vote on the election of three directors. The voting for directors was as follows:

| | For | Withheld | Broker Non-Votes |
|---|---|---|---|
| W. S. Antle III | 11,084,405 | 421,565 | 0 |
| L. W. Solley | 11,086,219 | 419,751 | 0 |
| J. D. Woods | 11,084,870 | 421,100 | 0 |

The terms of C. J. Kretschmer, J. M. McConnell, V. L. Richey, Jr., J. M. Stolze and D. C. Trauscht continued after the meeting.

In addition, the voting to ratify the Company's selection of KPMG LLP as independent auditors for the fiscal year ending September 30, 2005 was as follows:

| For | Against | Abstain |
|---|---|---|
| 11,338,450 | 160,166 | 7,353 |

## ITEM 6. EXHIBITS

a)Exhibits

| Exhibit Number | | |
|---|---|---|
| 3.1 | Restated Articles of Incorporation | Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1999, at Exhibit 3(a) |
| 3.2 | Amended Certificate of Designation Preferences and Rights of Series A Participating Cumulative Preferred Stock of the Registrant | Incorporated by reference to Form 10-Q for the fiscal quarter ended March 31, 2000, at Exhibit 4(e) |
| 3.3 | Articles of Merger effective July 10, 2000 | Incorporated by reference to Form10-Q for the fiscal quarter ended June 30, 2000, at Exhibit 3(c) |
| 3.4 | Bylaws, as amended and restated. | Incorporated by reference to Form10-K for the fiscal year ended September 30, 2003, at Exhibit 3.4 |
| 4.1 | Specimen Common Stock Certificate | Incorporated by reference to Form10-Q for the fiscal quarter ended June 30, 2000, at Exhibit 4(a) |
| 4.2 | Specimen Rights Certificate | Incorporated by reference to Current Report on Form 8-K dated February 3, 2000, at Exhibit B to Exhibit 4.1 |
| 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 to Current Report on Form 8-K dated February 3, 2000, at Exhibit 4.1 |

| | | |
|---|---|---|
| 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 to Form10-K for the fiscal year ended September 30, 2004, at Exhibit 4.4 |
| 31.1 | Certification of Chief Executive Officer relating to Form 10-Q for period ended March 31, 2005 | |
| 31.2 | Certification of Chief Financial Officer relating to Form 10-Q for period ended March 31, 2005 | |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer relating to Form 10-Q for period ended March 31, 2005 | |

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 TECHNOLOGIES INC.

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

Dated: May 10, 2005

Exhibit 31.1

CERTIFICATIONS

I, V.L. Richey, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of ESCO Technologies Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registran's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit and finance committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2005

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

Exhibit 31.2

CERTIFICATIONS

I, G.E. Muenster, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ESCO Technologies Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit and finance committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2005

(s) G.E. Muenster
G.E. Muenster
Chief Financial Officer

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of ESCO Technologies Inc. (the "Company") on Form 10-Q for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, V. L. Richey, Jr., Chief Executive Officer of the Company, and G. E. Muenster, Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2005

/s/ V.L. Richey, Jr.
V.L. Richey, Jr.
Chief Executive Officer
ESCO Technologies Inc.

/s/ G.E. Muenster
G.E. Muenster
Chief Financial Officer
ESCO Technologies Inc.