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 June 30, 1998

or

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

Commission file number 1-10596

ESCO ELECTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

Missouri	43-1554045
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8888 Ladue Road, Suite 200 St. Louis, Missouri (Address of principal executive offices)	63124-2090 (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

Number of common stock trust receipts outstanding at July 31, 1998: 12,449,018 receipts.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30, 1998	1997
Net sales	$ 98,236	109,348
Costs and expenses:		
Cost of sales	72,595	83,835
Selling, general and administrative expenses	16,966	17,063
Interest expense	2,021	1,935
Other, net	1,056	1,096
Total costs and expenses	92,638	103,929
Earnings before income taxes	5,598	5,419
Income tax expense	1,751	2,089

Net earnings	$ 3,847	3,330
Earnings per share: - Basic	$ .32	.28
- Diluted	.31	.27

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended June 30, 1998	Nine Months Ended June 30, 1997
Net sales	$262,343	267,058
Costs and expenses:		
Cost of sales	190,077	202,158
Selling, general and administrative expenses	49,783	45,754
Interest expense	5,664	3,446
Other, net	2,774	2,895
Total costs and expenses	248,298	254,253
Earnings before income taxes	14,045	12,805
Income tax expense	4,348	4,526
Net earnings	$ 9,697	8,279
Earnings per share: - Basic	$ .82	.70
- Diluted	.78	.68

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 1998	September 30, 1997
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 4,845	5,818
Accounts receivable, less allowance for doubtful accounts of $536 and $462, respectively	52,376	48,612
Costs and estimated earnings on long-term contracts, less progress billings of $53,669 and $56,451, respectively	36,913	54,633
Inventories	88,550	45,110
Other current assets	4,253	2,794
Total current assets	186,937	156,967

Property, plant and equipment, at cost	145,041	135,002
Less accumulated depreciation and amortization	49,977	38,470
Net property, plant and equipment	95,064	96,532
Excess of cost over net assets of purchased businesses, less accumulated amortization of $4,029 and $2,735, respectively	58,833	54,996
Deferred tax assets	43,875	48,510
Other assets	21,192	21,182
	$405,901	378,187
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 51,000	25,500
Accounts payable	38,575	38,238
Advance payments on long-term contracts, less costs incurred of $1,317 and $1,624, respectively	6,846	6,348
Accrued expenses and other current liabilities	23,130	24,590
Total current liabilities	119,551	94,676
Other liabilities	26,441	28,548
Long-term debt	45,147	50,000
Total liabilities	191,139	173,224
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, par value $.01 per share, authorized 10,000,000 shares	-	-
Common stock, par value $.01 per share, authorized 50,000,000 shares; issued 12,639,345 and 12,478,328 shares, respectively	126	125
Additional paid-in capital	195,118	194,663
Retained earnings since elimination of deficit of $60,798 at September 30, 1993	25,678	15,981
Cumulative foreign currency translation adjustment	(551)	196
Minimum pension liability	(181)	(181)
	220,190	210,784
Less treasury stock, at cost; 635,445 and 689,945 common shares, respectively	(5,428)	(5,821)
Total shareholders' equity	214,762	204,963
	$405,901	378,187

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended June 30,	
	1998	1997
Cash flows from operating activities:		
Net earnings	$ 9,697	8,279
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation and amortization	13,718	10,513
Changes in operating working capital, net of acquired businesses	(32,077)	(17,609)
Other	4,221	5,333
Net cash provided (used) by operating		

activities	(4,441)	6,516
Cash flows from investing activities:		
Capital expenditures	(9,839)	(7,518)
Acquisition of businesses, less cash acquired	(4,722)	(92,900)
Net cash used by investing activities	(14,561)	(100,418)
Cash flows from financing activities:		
Net increase in short-term borrowings	24,476	33,000
Proceeds from long-term debt	-	60,000
Principal payments on long-term debt	(5,113)	(14,675)
Other	(1,334)	(631)
Net cash provided by financing activities	18,029	77,694
Net decrease in cash and cash equivalents	(973)	(16,208)
Cash and cash equivalents, beginning of period	5,818	22,209
Cash and cash equivalents, end of period	$ 4,845	6,001

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

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

The results for the three and nine month periods ended June 30, 1998 are not necessarily indicative of the results for the entire 1998 fiscal year.

2. Earnings Per Share

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

	Three Months Ended June 30,		Nine Months ended June 30,	
	1998	1997	1998	1997
Weighted Average Shares Outstanding - Basic	11,965	11,804	11,880	11,810
Dilutive Options and Performance Shares	534	415	535	424
Adjusted Shares - Diluted	12,499	12,219	12,415	12,234

Options to purchase 77,500 shares of common stock at approximately

$18.00 - $19.22 per share and options to purchase 163,750 shares of common stock at $12.38 were outstanding during the nine month periods ended June 30, 1998 and June 30, 1997, respectively, but were not included in the respective computations of diluted EPS because the options exercise price was greater than the average market price of the common shares. These options expire in 2007 and 2008. Approximately 113,000 and 334,000 performance shares were outstanding but unearned at June 30, 1998, and 1997, respectively, and therefore, were not included in the respective computations of diluted EPS. The unearned performance shares expire in 2001.

3. Inventories

Inventories consist of the following (dollars in thousands):

	June 30, 1998	September 30, 1997
Finished Goods	$ 8,670	8,542
Work in process, including long-term contracts	64,177	22,971
Raw materials	15,703	13,597
Total inventories	$88,550	45,110

Under the contractual arrangements by which progress payments are received, the U.S. Government has a security interest in the inventories associated with specific contracts. Inventories are net of progress payment receipts of $3.1 million and $3.2 million at June 30, 1998 and September 30, 1997, respectively. The increase in inventories (work-in-process) is primarily related to the TUNNER program at SEI, as well as a normal inventory build-up at the other operating units necessary to satisfy the increased sales requirements for the remaining three months of fiscal 1998.

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

Results of Operations - Three months ended June 30, 1998 compared with three months ended June 30, 1997.

Net sales of $98.2 million for the third quarter of fiscal 1998 decreased $11.1 million (10.2%) from net sales of $109.3 million for the third quarter of fiscal 1997. The sales decrease in the current quarter reflects lower defense sales at Systems & Electronics Inc. (SEI) resulting from the timing of the receipt of defense orders. This decrease was partially offset by additional commercial sales at PTI and Filtertek. Commercial sales were $55.1 million (56.1%) and defense sales were $43.1 million (43.9%) for the third quarter of fiscal 1998, compared with commercial and defense sales of $56.5 million (51.7%) and $52.8 million (48.3%), respectively, in the third quarter of fiscal 1997. Commercial sales decreased ($1.4 million, net) in the third quarter of fiscal 1998 compared with the third quarter of fiscal 1997 due to lower U.S. Postal Service sales at SEI, partially offset by an increase in filtration/fluid flow products at PTI and Filtertek.

Order backlog at June 30, 1998 was $285.3 million, compared with $253.4 million at March 31, 1998. During the fiscal 1998 third quarter, new orders aggregating $130.1 million were received, compared with $88.0 million (48% increase) in the third quarter of fiscal 1997. The most significant orders in the current period were for electric utility communication and automatic meter reading systems, filtration/fluid flow products, long-lead funding for the 60K/TUNNER aircraft loader program, U.S. Postal Service equipment, and electronic test equipment.

The gross profit percentage was 26.1% in the third quarter of fiscal 1998 and 23.3% in the third quarter of fiscal 1997. The gross margin increased in the third quarter of fiscal 1998 due to an improved sales mix throughout the Company.

Selling, general and administrative (SG&A) expenses for the third quarter of fiscal 1998 were $17.0 million, or 17.3% of net sales, compared with

$17.1 million, or 15.6% of net sales, for the same period a year ago. The percentage increase is the result of the lower sales level in fiscal 1998.

Interest expense increased to $2.0 million in fiscal 1998 from $1.9 million in fiscal 1997 as a result of higher average outstanding borrowings in the current period. A significant amount of the outstanding borrowings in both periods presented were incurred in conjunction with the 1997 acquisition of Filtertek.

Other costs and expenses, net, were $1.1 million in the third quarter of fiscal 1998, consistent with the $1.1 million in the same period of fiscal 1997.

The effective income tax rate in the third quarter of fiscal 1998 was 31.3% compared to 38.5% in the third quarter of fiscal 1997. The lower effective tax rate is primarily attributable to the earnings contributed from the Company's foreign operations.

Results of Operations - Nine months ended June 30, 1998 compared with nine months ended June 30, 1997

Net sales of $262.3 million for the first nine months of fiscal 1998 decreased $4.8 million (1.8%) from net sales of $267.1 million for the first nine months of fiscal 1997. The decrease primarily reflects lower defense sales at SEI. This decrease was partially offset by additional commercial sales resulting from the Filtertek acquisition ($26.4 million net increase) and higher volume at EMC Test Systems and PTI. Commercial sales were $145.9 million (55.6%) and defense sales were $116.4 million (44.4%) for the first nine months of fiscal 1998, compared with commercial and defense sales of $122.1 million (45.7%) and $145 million, (54.3%) respectively, in the first nine months of fiscal 1997.

The order backlog at June 30, 1998 was $285.3 million, compared with $228.2 million at September 30, 1997. During the first nine months of fiscal 1998, new orders aggregating $319.4 million were received, compared with $240.6 million (32.8% increase) in the first nine months of fiscal 1997. The most significant orders in the current period were for filtration/fluid flow products, electric utility communication and automatic meter reading systems, long-lead funding for the 60K/TUNNER aircraft loader program, M1000 tank transporters, airborne radar systems, and fire support mission equipment.

The gross profit percentage was 27.5% in the first nine months of fiscal 1998 and 24.3% in the first nine months of fiscal 1997. The fiscal 1998 gross profit percentage increased from fiscal 1997 due to an improved sales mix throughout the Company.

Selling, general and administrative expenses for the first nine months of fiscal 1998 were $49.8 million, or 19.0% of net sales, compared with $45.8 million or 17.1% of net sales, for the same period a year ago. The increase in fiscal 1998 SG&A expenses is primarily due to the inclusion of Filtertek for the entire period of fiscal 1998 as compared to a partial period of fiscal 1997 as the acquisition was completed February 7, 1997.

Interest expense increased to $5.7 million from $3.4 million as a result of higher average outstanding borrowings in fiscal 1998 compared to fiscal 1997. A significant amount of the outstanding borrowings in 1998 were incurred in conjunction with the February 1997 acquisition of Filtertek.

Other costs and expenses, net, were $2.8 million in the first nine months of fiscal 1998, consistent with the $2.9 million in the same period of fiscal 1997.

The effective income tax rate in the first nine months of fiscal 1998 was 31.0% compared with 35.3% for the first nine months of fiscal 1997. The lower effective tax rate for the first nine months of fiscal 1998 is attributable to the earnings contributed from the Company's Puerto Rican and other foreign operations, and refunds received relating to the resolutions of state and local tax matters. Management estimates the annual effective tax rate for fiscal 1998 to be approximately 31%.

Financial Condition

Working capital increased to $67.4 million at June 30, 1998 from $62.3 million at September 30, 1997. During the first nine months of fiscal 1998: accounts receivable increased by $3.8 million as a result of the timing of sales and deliveries throughout the period; costs and estimated earnings on long-term contracts and inventories increased in the aggregate by $25.7 million in support of near-term production requirements (primarily 60K/TUNNER); and accounts payable and accrued expenses decreased by $1.0 million due to the timing of payments.

Net cash used by operating activities was $4.4 million in the first nine months of fiscal 1998. Net cash generated by operating activities was $6.5 million in the same period of fiscal 1997. The 1998 cash usage was primarily due to the inventory requirements discussed in the previous paragraph.

Capital expenditures were $9.8 million in the first nine months of fiscal 1998 compared with $7.5 million in the comparable period of fiscal 1997. Major expenditures in the current period included manufacturing equipment at Filtertek and PTI.

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

The Year 2000 Issue

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

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

In conjunction with this assessment, the Company is finalizing its action plans to address the Y2K issue, including contingencies to address unforeseen problems. The Company plans to use both internal and external resources to complete Y2K reprogramming, software replacement and testing. Preliminary plans anticipate completion of the Y2K remedial work by September 30, 1999. To date, the company has incurred approximately $1.25 million related to the Y2K remedial work. The total cost of the Y2K remedial work is estimated to be less than $5 million and will be expensed as incurred over the next 15 months.

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

Forward Looking Statements

Statements in this report that are not strictly historical are "forward looking" statements within the meaning of the safe harbor provisions of the federal securities laws. Investors are cautioned that such statements are only predictions, and speak only as of the date of this report. Actual results may differ due to risks and uncertainties which are described in the Company's Form 10-K for fiscal year 1997, on page 37 of the 1997 Annual Report to Shareholders and in The Year 2000 Issue section above.

PART II OTHER INFORMATION

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

a) Exhibits

Exhibit
Number

	4	Credit Agreement dated as of September 23, 1990 (as most recently amended and restated as of February 7, 1997 and amended as of May 6, 1997, November 21, 1997 and June 29, 1998)among the Company, Defense Holding Corp., the Banks listed therein and Morgan Guaranty Trust Company of New York, as agent.
	10(a)	Notice of Award - stock award to executive officer
	10(b)	Notice of Award - stock award to executive officer
b)	Reports on Form 8-K	There were no reports on Form 8-K filed during the quarter ended June 30, 1998.

SIGNATURE

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

ESCO ELECTRONICS CORPORATION

/s/Philip M. Ford

Philip M. Ford
Senior Vice President
and Chief Financial Officer
(as duly authorized officer
and principal financial
officer of the registrant)

Dated: August 13, 1998

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1,000

9-MOS
SEP-30-1998
JUN-30-1998
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52,912
536
88,550
186,937
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119,551
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.78

THIS NUMBER DOES NOT INCLUDE $36.9 MILLION OF COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS

EXECUTION COPY

THIRD AMENDMENT dated as of June 29, 1998, to the Credit Agreement dated as of September 23, 1990 (as amended and restated as of February 7, 1997), as amended by the Amendments dated as of May 6, 1997, and November 21, 1997 (the "Credit Agreement"), among ESCO ELECTRONICS CORPORATION, a Missouri corporation ("ESCO"), DEFENSE HOLDING CORP., a Delaware corporation (the "Borrower"), the BANKS party thereto (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

A. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement, as amended hereby.

B. ESCO and the Borrower have requested that certain provisions of the Credit Agreement be amended as set forth herein. The Banks are willing to so amend the Credit Agreement subject to the terms and conditions set forth herein.

Accordingly, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Amendments. (a) Section 1.01 of the Credit Agreement is hereby amended to add the following definitions:

"AMT" means Advanced Membrane Technology, Inc., a California corporation.

"AMT Investment" means the acquisition by a Wholly-Owned Consolidated Subsidiary of all of the outstanding common stock of AMT in exchange for consideration of approximately $15,000,000 (adjusted upward to reflect AMT's cash at closing and downward to reflect AMT's debt at closing) payable approximately 45% in cash and 55% in shares of common stock of ESCO.

(b) Article II of the Credit Agreement is hereby amended and restated by adding the following Section 2.17 at the end of such Article:

SECTION 2.17. Conversion. Effective upon the consummation of the AMT Investment, (a) Working Capital Borrowings in an aggregate principal amount of $7,000,000 shall be automatically converted into Term Borrowings and (b) the Working Capital Commitments shall be ratably reduced by $7,000,000. Prior to the date of such conversion, the Borrower shall notify the Agent in writing of the Working Capital Borrowing or Borrowings (or portions thereof) that are to be converted pursuant to the preceding sentence. The conversion of each such Borrowing (or portion thereof) shall be allocated ratably to the Loans included in such Borrowing. If the aggregate principal amount of outstanding Working Capital Loans would be less than $7,000,000 on the date that such conversion is to be made pursuant to the first sentence of this Section, then the Borrower shall borrow additional Working Capital Loans so that there are not less than $7,000,000 in aggregate principal amount of Working Capital Loans outstanding at the time of such conversion. Notwithstanding the foregoing, no such conversion shall become effective until receipt by the Security Agent of an amendment to each mortgage, deed of trust, assignment of leases or similar instrument or document required by law or reasonably requested by the Security Agent (all in form and substance reasonably satisfactory to the Required Banks) to be filed, registered or recorded in order to maintain in favor of the Security Agent (or a trustee on its behalf) for the benefit of the Banks a valid, legal and perfected first priority security interest in or lien on the real property (and improvements thereon) owned by the Borrower or any Specified Subsidiary and identified on Schedule 3.01(j) to the Credit Agreement, in each case duly executed and delivered by each mortgagor, grantor or pledgor thereunder.

(c) Section 5.09 of the Credit Agreement is hereby amended by deleting the words "clause (f), (l) or (n)" from the second sentence thereof and substituting the words "clause (f), (l), (n) or (o)".

(d) Section 5.11(a) of the Credit Agreement is hereby amended by replacing the period at the end of clause (xiv) thereof with a semicolon and by adding the following clauses (xv) and (xvi) at the end of such Section:

(xv) Debt of any Subsidiary acquired pursuant to an acquisition consummated in reliance upon clause (f) or (o) of Section 5.16; provided that (A) such Debt is outstanding at the time of and is not incurred in contemplation of such acquisition and (B) the aggregate principal amount of Debt at any time outstanding under this clause (xv) shall not exceed $1,000,000; and

(xvi) Debt incurred by DCS to finance the purchase of real property and improvements thereon to be used by DCS as its headquarters, and any Guarantee of such Debt by ESCO; provided that the aggregate principal amount of such Debt of DCS at any time outstanding under this clause (xvi) shall not exceed $2,500,000.

(e) Section 5.16 of the Credit Agreement is hereby amended by replacing the period at the end of clause (n) thereof with "; and" and adding the following clause (o) at the end of such Section:

(o) if at the time thereof and after giving effect thereto no Default shall have occurred and be continuing, an Investment by a Wholly-Owned Consolidated Subsidiary consisting of the AMT Investment; provided that the cash portion of the consideration for such Investment made pursuant to this clause (o) and any Debt of AMT remaining outstanding after the AMT Acquisition shall be treated as an Investment made pursuant to clause (f) of this Section for purposes of determining compliance with the limitations of such clause (f).

(f) Section 5.17 of the Credit Agreement is hereby amended by replacing the period at the end of clause (n) thereof with "; and" and adding the following clause (o) at the end of such Section:

(o) Liens on the real property and improvements referred to in clause (xvi) of Section 5.11(a) securing Debt of DCS permitted by such clause.

(g) Section 5.23 of the Credit Agreement is hereby amended and restated as follows:

SECTION 5.23. Leverage Ratio. The Leverage Ratio will not exceed (i) 0.70 to 1.00 at any date prior to October 1, 1999, or (ii) 0.65 to 1.00 at any date on or after October 1, 1999.

SECTION 2. Representations and Warranties. Each of ESCO and the Borrower hereby represents and warrants to each Bank, on and as of the date hereof, that:

(a) This Third Amendment has been duly authorized, executed and delivered by each of ESCO and the Borrower, and each of this Third Amendment and the Credit Agreement as amended by this Third Amendment constitutes a legal, valid and binding obligation of each of ESCO and the Borrower, enforceable in accordance with its terms.

(b) The representations and warranties of ESCO, the Borrower and its Subsidiaries contained in the Credit Agreement and in each other Loan Document are true and correct in all respects with the same effect as if made on and as of the date hereof, except to the extent that such representations and warranties expressly relate to an earlier date.

(c) After giving effect to this Third Amendment, no Default has occurred and is continuing.

SECTION 3. Effectiveness. This Third Amendment shall become effective upon receipt by the Agent of counterparts hereof signed by each of ESCO, the Borrower and each Bank.

SECTION 4. Miscellaneous. (a) This Third Amendment constitutes the entire agreement and understanding of the parties with respect to the subject matter hereof and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

(b) Section headings used herein are for convenience of reference only and are not to affect the construction of, or to be taken into consideration in interpreting, this Third Amendment.

(c) This Third Amendment shall be construed in accordance with and governed by the law of the State of New York.

(d) Each reference to a party hereto shall be deemed to include its successors and assigns, all of whom shall be bound by this Third Amendment and to whose benefit the provisions of this Third Amendment shall inure.

(e) This Third Amendment may be executed in any number of counterparts, each of which shall be an original but all of which, when taken together, shall constitute but one instrument.

(f) Except as specifically amended or modified hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be duly executed by their respective authorized officers as of the date first above written.

ESCO ELECTRONICS CORPORATION

DEFENSE HOLDING CORP.

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, individually and as Agent

NATIONSBANK, N.A.

THE BANK OF NEW YORK

THE BANK OF NOVA SCOTIA

NATIONAL CITY BANK

FIRST UNION NATIONAL BANK OF NORTH CAROLINA

SANWA BUSINESS CREDIT CORPORATION

NOTICE OF AWARD

To: Walter Stark

From: Human Resources and Ethics Committee of the Board of Directors of ESCO Electronics Corporation (Committee)

Subject: Award of Restricted Shares

1. Award. The Committee has awarded to you 9,000 Shares of Company Stock (as hereinafter defined), subject to the terms hereinafter set forth.

2. Terms. The following are the terms of the Award:

a) During the period commencing on the date hereof and ending on September 30, 2001 (the Restriction Period) you must remain employed by the Company. If during the Restriction Period you terminate employment for any reason other than death or disability, you will forfeit the shares of Company Stock awarded hereunder. If, during the Restriction Period, you terminate employment on account of death or disability (as determined by the Board), you (or your estate) shall become fully vested in the shares of Company Stock awarded hereunder and the employment requirement of this subparagraph (a) shall cease to apply.

b) During the Restriction Period, the certificates representing the shares of Company Stock awarded hereunder shall be held by an escrow agent selected by the Company. At the end of the Restriction Period (or upon your earlier termination of employment on account of death or disability as determined under subparagraph (a), above, or upon a change of Control under the circumstances described in subparagraph (c), below) the escrow agent shall deliver such certificates to you (or to your estate). During the Restriction Period you will be entitled to all dividends paid on the shares of Company Stock awarded hereunder and you will be entitled to instruct the escrow agent how to vote such shares.

c) If there is a Change of Control (as hereinafter defined) and you are employed by the Company on the date of the Change of Control, you will become fully vested in the shares of Company stock awarded hereunder and the employment requirement of subparagraph (b) shall cease to apply.

3. Definitions

a) Change of Control shall mean:

i) The purchase or other acquisition (other than from the Company) by any persons, entity or group of persons, within the meaning of Section 13 (d) or 14(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either the then-outstanding shares of Common Stock of the Company or the combined voting power of the Company s then-outstanding voting securities entitled to vote generally in the election of directors; or

ii) Individuals who, as of the date hereof, constitute the Board (as the date hereof, the Incumbent Board) cease for any reason to constitute at least a majority of the Board, provided that any person who becomes a director subsequent to the date hereof whose election, or nomination for election by the Company s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this section, considered as though such person were a member of the Incumbent Board; or

iii) Approval by the stockholders of the Company of a reorganization, merger or consolidation, in each case with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of respectively, the common stock and the combined voting power entitled to vote generally in the elections of directors of the reorganized, merged or consolidated corporations then-outstanding voting securities, or of a liquidation or dissolution of the Company or of the sale of all substantially all of the assets of the Company.

b) Company Stock means common stock of the Company as well as common stock trust receipts issued pursuant to the Deposit and Trust Agreement dated September 24, 1990 among the Company, Emerson Electric Co. and Boatmen s Trust Company, as Trustee

4. Amendment. The Award may be amended by written consent between the Company and you.

Executed this 22 day of May 1998

ESCO ELECTRONICS CORPORATION

BY: Deborah J. Hanlon

ATTEST: D. J. Moore, Secretary

AGREED TO AND ACCEPTED:

Walter Stark

NOTICE OF AWARD

To: Philip M. Ford

From: Human Resources and Ethics Committee of the Board of Directors of ESCO Electronics Corporation (Committee)

Subject: Award of Restricted Shares

1. Award. The Committee has awarded to you 9,000 Shares of Company Stock (as hereinafter defined), subject to the terms hereinafter set forth.

2. Terms. The following are the terms of the Award:

a) During the period commencing on the date hereof and ending on September 30, 2001 (the Restriction Period) you must remain employed by the Company. If during the Restriction Period you terminate employment for any reason other than death or disability, you will forfeit the shares of Company Stock awarded hereunder. If, during the Restriction Period, you terminate employment on account of death or disability (as determined by the Board), you (or your estate) shall become fully vested in the shares of Company Stock awarded hereunder and the employment requirement of this subparagraph (a) shall cease to apply.

b) During the Restriction Period, the certificates representing the shares of Company Stock awarded hereunder shall be held by an escrow agent selected by the Company. At the end of the Restriction Period (or upon your earlier termination of employment on account of death or disability as determined under subparagraph (a), above, or upon a change of Control under the circumstances described in subparagraph (c), below) the escrow agent shall deliver such certificates to you (or to your estate). During the Restriction Period you will be entitled to all dividends paid on the shares of Company Stock awarded hereunder and you will be entitled to instruct the escrow agent how to vote such shares.

c) If there is a Change of Control (as hereinafter defined) and you are employed by the Company on the date of the Change of Control, you will become fully vested in the shares of Company stock awarded hereunder and the employment requirement of subparagraph (b) shall cease to apply.

3. Definitions

a) Change of Control shall mean:

i) The purchase or other acquisition (other than from the Company) by any persons, entity or group of persons, within the meaning of Section 13 (d) or 14(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either the then-outstanding shares of Common Stock of the Company or the combined voting power of the Company s then-outstanding voting securities entitled to vote generally in the election of directors; or

ii) Individuals who, as of the date hereof, constitute the Board (as the date hereof, the Incumbent Board) cease for any reason to constitute at least a majority of the Board, provided that any person who becomes a director subsequent to the date hereof whose election, or nomination for election by the Company s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this section, considered as though such person were a member of the Incumbent Board; or

iii) Approval by the stockholders of the Company of a reorganization, merger or consolidation, in each case with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of respectively, the common stock and the combined voting power entitled to vote generally in the elections of directors of the reorganized, merged or consolidated corporations then-outstanding voting securities, or of a liquidation or dissolution of the Company or of the sale of all substantially all of the assets of the Company.

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4. Amendment. The Award may be amended by written consent between the Company and you.

Executed this 22 day of May 1998

ESCO ELECTRONICS CORPORATION

BY: Deborah J. Hanlon

ATTEST: D. J. Moore, Secretary

AGREED TO AND ACCEPTED:

Walter Stark