



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 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  
(State or other jurisdiction  
of incorporation or organization)

43-1554045  
(I.R.S. Employer  
Identification No.)

9900A Clayton Road  
St. Louis, Missouri  
(Address of principal executive offices)

63124-1186  
(Zip Code)

Registrant's telephone number, including area code:

(314) 213-7200

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Aggregate market value of the Common Stock held by non-affiliates of the registrant as of the close of business on March 31, 2005: \$990,159,960\*.

\* For purpose of this calculation only, without determining whether the following are affiliates of the registrant, the registrant has assumed that (i) its directors and executive officers are affiliates, and (ii) no party who has filed a Schedule 13D or 13G is an affiliate.

Number of shares of Common Stock outstanding at December 9, 2005: 25,576,235.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's Annual Report to Stockholders for fiscal year ended September 30, 2005 (the "2005 Annual Report") (Parts I and II).
2. Portions of the registrant's Proxy Statement dated December 21, 2005 (the "2006 Proxy Statement") (Part III).

ESCO TECHNOLOGIES INC.  
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**PART I**

**Item 1. Business**

**THE COMPANY**

ESCO Technologies Inc. (“ESCO”) is a producer of engineered products and systems sold to customers worldwide, primarily for industrial and commercial applications. ESCO operates in three industry segments which, together with the operating subsidiaries within each segment, are as follows:

Filtration/Fluid Flow:

Filtertek Inc. (including its Tek Packaging Division)  
Filtertek BV  
Filtertek do Brasil Industria E Comercio Ltda.  
Filtertek SA  
PTI Technologies Inc. (“PTI”)  
VACCO Industries (“VACCO”)  
ESCO Electronica De Mexico, S.A. de C.V. (“ESCOMEX”)

Communications:

Distribution Control Systems, Inc. (“DCSI”)  
Distribution Control Systems Caribe, Inc.  
Comtrak Technologies, L.L.C. (“Comtrak”)

Test:

ETS-Lindgren L.P. (“ETS”)  
Lindgren RF Enclosures, Inc. (“Lindgren”)  
Euroshield OY  
Ray Proof Limited  
Beijing Lindgren ElectronMagnetic Technology Co., Ltd. (“Beijing Lindgren”)  
ETS-Lindgren Japan, Inc.

All of the Filtertek entities listed above are hereinafter collectively referred to as “Filtertek”.

Filtertek de Puerto Rico, Inc. (not listed above) ceased operations at its sole facility, located in Puerto Rico, in March 2004; its operations were transferred to Filtertek Inc. (Hebron, Illinois) and ESCOMEX (Juarez, Mexico).

The above operating subsidiaries are engaged primarily in the research, development, manufacture, sale and support of the products and systems described below, and are subsidiaries of ESCO Technologies Holding Inc., a wholly-owned direct subsidiary of ESCO. ESCO and its direct and indirect subsidiaries are hereinafter referred to collectively as the “Company”. The Company’s businesses are subject to a number of risks and uncertainties, including without limitation those discussed below. See “Management’s Discussion and Analysis” appearing in the 2005 Annual Report, which is herein incorporated by reference, and “Forward-Looking Information” below.

Effective November 29, 2005, ESCO acquired Nexus Energy Software, Inc. (“Nexus”) for a purchase price of \$28.5 million plus contingent consideration based on future sales. Nexus, with headquarters in Wellesley, Massachusetts, is primarily a producer of software for energy meter applications, and has been included in the Company’s Communications segment. Nexus had sales revenue of \$10 million in its latest fiscal year. Since the acquisition occurred after the end of fiscal year 2005, no additional information concerning Nexus is included in this report.

**DISCONTINUED OPERATIONS**

Effective April 11, 2003, the Company completed the divestiture of Rantec Power Systems Inc. (“Rantec”) for \$6 million plus contingent consideration. Rantec had previously been reported as a portion of a

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separate industry segment entitled "Other". Rantec, located in Los Osos, California, is a manufacturer of high voltage and low voltage power supplies for commercial and military applications. In fiscal 2003, Rantec accounted for approximately \$6 million in net sales.

In July 2003, the Company announced its decision to divest its microfiltration and separations businesses ("MicroSep Business") in the Filtration/Fluid Flow segment. The MicroSep Business consisted of PTI Advanced Filtration Inc. (Oxnard, California), PTI Technologies Limited (Sheffield, England) and PTI S.p.A. (Milan, Italy). The MicroSep Business produced membrane-based microfiltration and separation products and systems for use in process filtration and separation applications. The key customer segments included the microelectronics, chemicals, nutraceuticals, food and beverage, electrocoat, pharmaceutical, healthcare and petrochemical markets. In fiscal 2004, the MicroSep Business accounted for approximately \$29 million in net sales.

Effective April 2, 2004, the Company completed the sale of PTI Advanced Filtration Inc. and PTI Technologies Limited to domnick hunter group plc for \$18 million in cash. On June 8, 2004, the Company completed the sale of PTI S.p.A. to a group of investors comprised of that subsidiary's senior management for \$5.3 million. In October 2003, the Company terminated its exclusive license rights to the patent portfolio and related intellectual property of North Carolina Separations Research Technology Inc. and its affiliate ("NCSRT"), which license rights were a part of the MicroSep Business, as discussed under "INTELLECTUAL PROPERTY" in this Item 1.

Rantec and the MicroSep Business are accounted for as discontinued operations in the Consolidated Financial Statements in the 2005 and 2004 Annual Reports in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

The following sections of this Item 1 refer to the Company's continuing operations, except where noted. Accordingly, dollar amounts and percentages presented below in this Item 1 for all periods reflect continuing operations by excluding Rantec and the MicroSep Business. See Note 2 of the Notes to Consolidated Financial Statements in the 2005 Annual Report, which Note is herein incorporated by reference.

## **PRODUCTS**

The Company's products are described below. See Note 14 of the Notes to Consolidated Financial Statements in the 2005 Annual Report for financial information regarding segments, which Note is herein incorporated by reference.

### FILTRATION/FLUID FLOW

The Filtration/Fluid Flow segment accounted for approximately 40%, 41% and 41% of the Company's total revenue in fiscal years 2005, 2004 and 2003, respectively.

Filtertek develops and manufactures a broad range of specialized filtration and valve products at its facilities in North America, South America and Europe. Filtertek's products, which are centered around its insert injection-molding technology wherein a filter medium is inserted into the tooling prior to injection-molding of the filter housing, have widespread applications in the medical and healthcare markets, automotive fluid system market, consumer appliance and other commercial and industrial markets. Typical Filtertek customers may require daily production of thousands of units, at very high levels of quality, that are generally produced in highly-automated manufacturing cells. Many of Filtertek's products are produced utilizing patented designs or proprietary product or process design, or both. Filtertek's products are typically supplied to original equipment manufacturers under long-term contracts. In fiscal 2005, Filtertek introduced a number of new products including a new high flow filter for intravenous (IV) solutions and check valve products for IV sets, and continued development of a number of products, such as vials and process filters, for drug handling and transfer. The Tek Packaging Division of Filtertek Inc. produces highly engineered thermal-formed and security packaging products for medical, food and electronics products.

PTI is a leading supplier of filtration products serving the commercial aerospace, military aerospace and various industrial markets. The industrial markets include chemical processing, automotive and mobile

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equipment. Products include filter elements, assemblies, modules, indicators and other related components. All products must meet stringent quality requirements and withstand severe operating conditions. Product applications include aircraft and mobile equipment hydraulic systems, aircraft engines, plant equipment and automotive transmissions. PTI supplies product worldwide to original equipment manufacturers and the U.S. government under long term contracts, and to the commercial aftermarkets through distribution channels.

VACCO supplies flow control products to the aerospace industry for use in aircraft, satellite propulsion systems, satellite launch vehicles and the space shuttle. VACCO also uses its etched disc technology to produce quiet valves and manifolds for U.S. Navy and severe service industrial applications.

### COMMUNICATIONS

The Communications segment accounted for approximately 32%, 33% and 36% of the Company's total revenue in fiscal years 2005, 2004 and 2003, respectively.

DCSI is a leading manufacturer of two-way power line communication systems for the electric utility industry (the "TWACS® systems"), which are composed of equipment (primarily central stations, substations and meter modules), software and support services. The TWACS Next Generation ("TNG") software is being developed jointly with a third-party contractor. This development continued in fiscal 2005 leading to the commercial release of its initial version, which was delivered to the first customer location and is now undergoing operational testing. Currently, additional versions of the TNG software are under development and are scheduled for commercial release in fiscal 2006 and 2007. The TWACS system provides electric utilities with a patented communication technology for automatic meter reading, load control, interval data, outage assessment/restoration monitoring, remote service disconnect/connect, time-of-use data for critical peak pricing, tamper/theft detection and pre-paid metering. Revenue from the TWACS systems, which may be considered a class of similar products, accounted for approximately 28%, 31%, and 34% of the Company's total revenue in fiscal years 2005, 2004 and 2003, respectively. In fiscal 2005, DCSI received a \$19 million order from TXU Electric Delivery Company ("TXU"), and also received a follow-on order for \$9.1 million in November 2005. Sales to TXU in fiscal 2005 amounted to \$7.2 million. Revenue from the balance of this contract is expected to be realized in fiscal 2006. During fiscal 2005, sales of the TWACS Systems to PPL Electric Utilities Corporation ("PPL") declined to \$2.4 million, or 0.5% of total Company sales, as the contract was successfully completed. PPL sales were \$21.6 million and \$63.9 million, or 5% and 16% of total Company sales, in fiscal 2004 and 2003, respectively. Revenue from a \$50 million follow-on contract with Puerto Rico Electric Power Authority awarded in fiscal 2001 amounted to \$9.8 million in fiscal 2005. Revenue from this contract of approximately \$5 million is expected to be realized in fiscal 2006. This contract will continue through fiscal 2007. Sales to electric utility cooperatives in fiscal 2005 increased \$17.5 million, or 24%, over fiscal 2004 sales. In November 2005, DCSI received a contract from Pacific Gas and Electric Company ("PG&E") in support of the electric portion of PG&E's Advanced Metering Infrastructure ("AMI") Project. The current AMI program plan provides for the coverage of approximately five million electric endpoints over a five year period after the commencement of full deployment, which is contingent upon satisfactory system testing, regulatory approval and final PG&E management approval. System testing and regulatory action are currently expected to be concluded by the end of the third quarter of calendar 2006. DCSI has agreed to deliver to PG&E versions of its newly developed TNG software as they become available and are tested. Acceptance of the final version, for which DCSI has committed, is currently anticipated in the latter portion of fiscal 2007. That contract provides for liquidated damages in the event of DCSI's delayed development or delivery of hardware and software. The total anticipated contract value from commencement through the five year full deployment period is approximately \$300 million. Annual purchase order releases are anticipated. See "Management's Discussion and Analysis" – "Recent Development" appearing in the 2005 Annual Report.

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

## TEST

The Test segment accounted for approximately 28%, 26% and 23% of the Company's total revenue in fiscal years 2005, 2004 and 2003, respectively.

ETS designs and manufactures products to measure and contain electromagnetic and acoustic energy. It supplies a broad range of products including radio frequency ("RF") test enclosures, acoustic test enclosures, RF absorptive materials, antennas, antenna masts, turntables, electric and magnetic probes, TEM (transverse electromagnetic) cells, GTEM (gigahertz transverse electromagnetic) cells and other test accessories required to perform a variety of tests. ETS also provides the design, program management and integration services required to supply customers with turnkey solutions. ETS also performs certified calibrations for antennas, probes, meters and other components. In fiscal 2003, ETS developed a Cellular Telecommunications and Internet Association certified test lab which provides customers with a variety of certified wireless test services. ETS serves the healthcare, electronics, transportation and defense markets.

Lindgren designs, manufactures, installs and services electromagnetic ("EM") shielding systems used in medical facilities, wireless product testing and electronic product testing. Lindgren's products include RF and magnetic shielding for MRI (magnetic resonance imaging) rooms, shielded test enclosures, RF filters, fiber optic interface components, active magnetic field compensation systems, and a line of proprietary doors designed specifically for EM isolation, containment and measurement applications. Lindgren also supplies special high performance RF and acoustic shielded rooms for secure data processing and communications for government security applications.

Euroshield OY designs and manufactures a broad range of modular shielding systems and shielded doors, some of which are proprietary, for the world market. It also provides the design, program management and integration services to supply the European market with turnkey solutions.

Beijing Lindgren manufactures electromagnetic shielding systems to support most of the Asian market. These products are used in medical facilities and wireless and electronic product testing. Beijing Lindgren also provides design, program management, installation and support services to the region.

ETS-Lindgren Japan, Inc. provides design, program management, installation and support services for the Japanese market.

## **MARKETING AND SALES**

The Filtration/Fluid Flow and Test segments' products generally are distributed to customers through a domestic and foreign network of distributors, sales representatives and factory salespersons. The Communications segment's sales to investor-owned utilities are primarily made directly to the utilities. This segment primarily utilizes distributors and sales representatives to sell its systems to the electric utility cooperative and municipal markets.

The Company's international sales accounted for approximately 24%, 22% and 19% of the Company's total sales in the fiscal years ended September 30, 2005, 2004 and 2003, respectively. See Note 14 of the Notes to Consolidated Financial Statements in the 2005 Annual Report for financial information regarding geographic areas, which Note is herein incorporated by reference.

The Company's international sales are subject to risks inherent in foreign commerce, including currency fluctuations and devaluations, the risk of war and terrorism, changes in foreign governments and their policies, differences in foreign laws, uncertainties as to enforcement of contract rights, and difficulties in negotiating and resolving disputes with foreign customers.

Some of the Company's products are sold directly or indirectly to the U.S. Government under contracts with the Army, Navy and Air Force and subcontracts with prime contractors of such entities. Direct and indirect sales to the U.S. Government accounted for approximately 8% of the Company's total sales in each of the fiscal years ended September 30, 2005, 2004 and 2003.



## **INTELLECTUAL PROPERTY**

The Company owns or has other rights in various forms of intellectual property (i.e., patents, trademarks, service marks, copyrights, mask works, trade secrets and other items). As a major supplier of engineered products to growing industrial and commercial markets, the Company emphasizes developing intellectual property and protecting its rights therein. However, the scope of protection afforded by intellectual property rights, including those of the Company, is often uncertain and involves complex legal and factual issues. Some intellectual property rights, such as patents, have only a limited term. Also, there can be no assurance that third parties will not infringe or design around the Company's intellectual property. Policing unauthorized use of intellectual property is difficult, and copyright infringement is a persistent problem for many companies, particularly in some international markets. In addition, the Company may not elect to pursue an unauthorized user due to the high costs and uncertainties associated with litigation. Further, there can be no assurance that courts will ultimately hold issued patents valid and enforceable.

With respect to the Filtration/Fluid Flow segment, an increasing number of products are based on patented or otherwise proprietary technology that sets them apart from the competition. Of particular importance to Filtertek is a U.S. patent covering certain transmission sump filters, which will expire in 2009. Also, Filtertek receives significant income from licensing and cost recovery efforts concerning its U.S. patent on certain needle-free medical connection devices, having claims which will expire on various dates between 2011 and 2013. VACCO's proprietary quieting technology is a significant differentiator for products supplied to the U.S. Navy submarine fleet. In June 2005, the Company abandoned its plans to commercialize certain PTI sensor products, resulting in the abandonment of certain related patents and a related license agreement. See "Management's Discussion and Analysis"—"Asset Impairment" appearing in the 2005 Annual Report.

In the Communications segment, many of the products are based on patented or otherwise proprietary technology, including the Company's TWACS technology. The TWACS systems are protected primarily by a number of patents expiring on various dates ending in 2017. Patents covering significant aspects of the TWACS technology will expire in 2007 and 2010 for outbound signal reception, 2007 for inbound signal detection, and 2017 for inbound signal generation. The Communications segment policy is to seek patent and/or other forms of intellectual property protection on new and improved products, components of products and methods of operation for its businesses, as such developments are made. The Company plans to protect the TNG software as trade secrets.

In the Test segment, patent protection has been sought for significant inventions. Examples of such inventions include novel designs for window and door assemblies used in anechoic chambers as well as improved acoustic techniques for sound isolation.

In October 2003, the Company terminated the license agreement pursuant to which it had acquired exclusive rights to the patent portfolio and related intellectual property (including its flat sheet module technology) of NCSRT, a manufacturer of cross-flow filtration and separation modules and equipment. The NCSRT license rights were a part of the MicroSep Business, which was divested by the Company in fiscal 2004, as discussed in "Discontinued Operations" in this Item 1.

The Company considers its patent and other intellectual property to be of significant value in each of its segments. The Communications segment owns intellectual property, including its TWACS technology, which it deems necessary or desirable for the manufacture, use or sale of its products. See the references to the TNG software above in this section and in "Communications" on page 3 of this report. No other segment is materially dependent on any single patent, group of patents or other intellectual property.

## **BACKLOG**

Total Company backlog at September 30, 2005 was \$233.1 million, representing a decrease of \$16.0 million (6.4%) from the beginning of the fiscal year backlog of \$249.1 million. The backlog of firm orders at September 30, 2005 and September 30, 2004, respectively, was: \$80.5 million and \$77.7 million for Filtration/Fluid Flow; \$87.8 million and \$108.7 million for Communications; and \$64.8 million and \$62.7 million for Test. As of September 30, 2005, it is estimated that domestic customers accounted for approximately

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77% of the Company's total firm orders, and international customers accounted for approximately 23%. Of the Company's total backlog of orders at September 30, 2005, approximately 78% is expected to be completed in the fiscal year ending September 30, 2006.

### **PURCHASED COMPONENTS AND RAW MATERIALS**

The Company's products require a wide variety of components and materials. Although the Company has multiple sources of supply for most of its materials requirements, certain components and raw materials are supplied by sole-source vendors, and the Company's ability to perform certain contracts depends on their performance. In the past, these required raw materials and various purchased components generally have been available in sufficient quantities. However, in each of the Company's segments, there are instances of some risk of shortages of materials or components due to reliance on sole source of supply.

The Filtration/Fluid Flow segment purchases supplies from a wide array of vendors. In most instances, multiple vendors of raw materials are screened during a qualification process to ensure that there will not be an interruption of supply should one of them discontinue operations. Nonetheless, in some situations, there is a risk of shortages due to reliance on a limited number of suppliers or because of price fluctuations due to the nature of the raw materials, as in the case of petroleum-based resins utilized by Filtertek.

In the Communications segment, DCSI utilizes a limited number of supply sources to produce substantially all of DCSI's end-products. Recently, two of DCSI's three primary suppliers have ceased operations. DCSI has entered into a contract with one replacement supplier, and has reached an understanding for a contract with a second replacement supplier. The Company believes that these replacement suppliers, which are substantial companies, will be reliable sources for DCSI's end-products for the foreseeable future.

The Test segment is a vertically integrated supplier of EM shielding products, producing most of its critical RF components. However, this segment purchases significant quantities of raw materials such as steel, copper, nickel and wood. Accordingly, the segment is subject to price fluctuations in the worldwide raw materials markets. In fiscal 2005, this segment experienced significant price increases in the metal markets as compared to the prior year.

### **COMPETITION**

Competition in the Company's major markets is broadly based and global in scope. The Company faces intense competition from a large number of companies for nearly all of its products. Competition can be particularly intense during periods of economic slowdown, and this has been experienced in the past in some of the Filtration/Fluid Flow markets. Although the Company is a leading supplier in several of the markets it serves, it maintains a relatively small share of the business in many of the other markets it serves. Individual competitors range in size from annual revenues of less than \$1 million to billion dollar enterprises. Because of the specialized nature of the Company's products, it is generally impossible to state precisely its competitive position with respect to its products. However, DCSI is believed to be a leading supplier in the fixed network segment of the automatic meter reading ("AMR") market. This fixed network segment comprises a substantial part of the electric portion of the total AMR market for electric utilities. Substantial efforts are required in order to maintain existing business levels. In the Company's major served markets, competition is driven primarily by quality, technology, price and delivery performance. The following information concerns the Company's industry segments.

Pall Corporation, SPX Filtran and SoFrance are the primary competitors in the Filtration/Fluid Flow markets. Other significant competitors in these markets include Clarcor Inc., Illinois Tool Works Inc. and Moog Inc.

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

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The Test segment is the global leader in the EM shielding market. Significant competitors in this served market include Braden Shielding Systems, TDK RF Solutions Inc., IMEDCO AG and Cuming Corporation.

### **RESEARCH AND DEVELOPMENT**

Research and development and the Company's technological expertise are important factors in the Company's business. Research and development programs are designed to develop technology for new products or to extend or upgrade the capability of existing products, and to enhance their commercial potential.

The Company performs research and development at its own expense, and also engages in research and development funded by customers. For the fiscal years ended September 30, 2005, 2004 and 2003, total Company-sponsored research and development expenses were approximately \$16.8 million, \$12.2 million and \$11.0 million, respectively. Total customer-sponsored research and development expenses were approximately \$5.7 million, \$6.1 million and \$7.1 million for the fiscal years ended September 30, 2005, 2004 and 2003, respectively. All of the foregoing expense amounts exclude certain engineering costs primarily associated with product line extensions, modifications and maintenance, which amounted to approximately \$7.8 million, \$9.6 million and \$6.7 million for the fiscal years ended September 30, 2005, 2004 and 2003, respectively.

### **ENVIRONMENTAL MATTERS**

The Company is involved in various stages of investigation and cleanup relating to environmental matters. It is very difficult to estimate the potential costs of such matters and the possible impact of these costs on the Company at this time due in part to: the uncertainty regarding the extent of pollution; the complexity of Government laws and regulations and their interpretations; the varying costs and effectiveness of alternative cleanup technologies and methods; the uncertain level of insurance or other types of cost recovery; and in the case of off-site waste disposal facilities, the uncertain level of the Company's relative involvement and the possibility of joint and several liability with other contributors under applicable law. Based on information currently available, the Company does not believe that the aggregate costs involved in the resolution of any of its environmental matters will have a material adverse effect on the Company's financial statements.

### **GOVERNMENT CONTRACTS**

The Company's contracts with the U.S. Government and subcontracts with prime contractors of the U.S. Government are primarily firm fixed-price contracts under which work is performed and paid for at a fixed amount without adjustment for the actual costs experienced in connection with the contracts. Therefore, unless the customer actually or constructively alters or impedes the work performed, all risk of loss due to cost overruns is borne by the Company. All Government prime contracts and virtually all of the Company's subcontracts provide that they may be terminated at the convenience of the Government. Upon such termination, the Company is normally entitled to receive equitable compensation. See "Marketing And Sales" in this Item 1 for additional information regarding Government contracts.

### **EMPLOYEES**

As of November 30, 2005, the Company employed approximately 2,365 persons.

### **FINANCING**

On October 6, 2004, the Company entered into a \$100 million five-year revolving credit facility with a \$50 million increase option. This facility replaced the Company's \$60 million credit facility that would have otherwise matured in April 2005. The current facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of six banks, led by Wells Fargo Bank as agent, with a maturity of October 6, 2009. The facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. See "Management's Discussion and Analysis – Capital Resources and Liquidity" in the 2005 Annual Report, and Note 10 of the

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Notes to Consolidated Financial Statements in the 2005 Annual Report, which information is herein incorporated by reference.

### **HISTORY OF THE BUSINESS**

ESCO was incorporated in Missouri in August 1990 as a wholly-owned subsidiary of Emerson Electric Co. (“Emerson”) to be the indirect holding company for several Emerson subsidiaries, which were primarily in the defense business. Ownership of ESCO and its subsidiaries was distributed on October 19, 1990 by Emerson to its shareholders through a special distribution. Since that time, through a series of acquisitions and divestitures, the Company has shifted its primary focus from defense contracting to the supply of engineered products marketed to industrial and commercial users. Effective July 10, 2000, ESCO changed its name from ESCO Electronics Corporation to ESCO Technologies Inc.

Rantec and the MicroSep Business, which were divested in fiscal 2003 and 2004, respectively, are discussed under “Discontinued Operations” in this Item 1.

### **FORWARD-LOOKING INFORMATION**

Statements contained in this Item 1 “Business”, Item 3 “Legal Proceedings” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (incorporated by reference to “Management’s Discussion and Analysis” appearing in the 2005 Annual Report) regarding future events, the Company’s future revenues, the size, timing and value of the PG&E contract and purchase order releases under the PG&E contract, the timing and outcome of testing and regulatory actions connected with the PG&E contract, the timing and success of TNG development efforts, protection of TNG as a trade secret, the ability of DCSI’s suppliers to supply DCSI’s requirements, payment of dividends, profitability, financial resources, expected completion of backlog orders, projections about the Company’s future performance in the industries in which the Company operates, the Company’s ability to utilize NOLs, reinvestment of foreign earnings, adequacy of future cash flows, the outcome of current litigation, effects of final judgments in any litigation, costs and impacts resulting from environmental matters, claims and charges, future share repurchases, investments, acquisitions and other statements contained herein which are not strictly historical are considered “forward-looking statements” within the meaning of the safe harbor provisions, of the federal securities laws. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are intended to help identify such forward-looking statements. Investors are cautioned that such statements are only predictions, speak only as of the date of this report, and the Company undertakes no duty to update. The Company’s actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company’s operations and business environment including, but not limited to: actions by the California Public Utility Commission, PG&E’s Board of Directors or PG&E’s management impacting PG&E’s AMI projects, technical difficulties and delays in connection with DCSI’s TNG software development efforts; the timing and content of purchase order releases under the PG&E contract; DCSI’s successful performance of the PG&E contract; the timing and execution of real estate sales; termination for convenience of customer contracts; timing and magnitude of future contract awards; weakening of economic conditions in served markets; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties; the availability of selected acquisitions; the timing, pricing and availability of shares offered for sale; delivery delays or defaults by customers; performance issues with key suppliers 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; actual clean up costs and required level of Company contribution relating to environmental matters; litigation uncertainty; and the Company’s successful execution of internal operating plans.

### **AVAILABLE INFORMATION**

The Company makes available free of charge through its Internet website, [www.escotechnologies.com](http://www.escotechnologies.com), its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange

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Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

**Item 2. Properties**

The Company's principal buildings contain approximately 1,137,650 square feet of floor space. Approximately 736,500 square feet are owned by the Company and approximately 401,150 square feet are leased. See Note 8 of the Notes to Consolidated Financial Statements in the 2005 Annual Report, which information is herein incorporated by reference. The principal plants and offices are as follows\*:

<u>Location</u>	<u>Size (Sq. Ft.)</u>	<u>Sq. Ft. Owned/Leased</u>	<u>Lease Expiration Date</u>	<u>Principal Use (Industry Segment)</u>
South El Monte, CA	132,100	Owned-100,100 Leased – 32,000	1-2-2008	Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Oxnard, CA	127,400	Owned		Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Durant, OK	100,000	Owned		Manufacturing (Test)
Hebron, IL	99,800	Owned		Management, Engineering and Manufacturing (Filtration/Fluid Flow)
Huntley, IL	85,000	Owned		Manufacturing (Filtration/FluidFlow)
Cedar Park, TX	75,200	Owned		Management, Engineering and Manufacturing (Test)
Austin, TX	69,300	Leased	12-31-2007 (two 5-year renewal options)	Management, Engineering and Manufacturing (Test)
St. Louis, MO	67,200	Leased	3-31-2008 (two 5-year renewal options)	Management and Engineering (Communications)
Glendale Heights, IL	59,400	Leased	3-31-2010 (three 3-year renewal options)	Management, Engineering and Manufacturing (Test)
Sao Paulo, Brazil	40,000	Leased	7-31-2007	Manufacturing (Filtration/Fluid Flow)
Eura, Finland	39,300	Owned		Management, Engineering and Manufacturing (Test)
Newcastle West, Ireland	37,500	Owned		Manufacturing (Filtration/Fluid Flow)
Plailly, France	37,200	Owned		Engineering and Manufacturing (Filtration/Fluid Flow)
St. Louis, MO	35,000	Owned		Management and Engineering(Communications)

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<u>Location</u>	<u>Size (Sq. Ft.)</u>	<u>Sq. Ft. Owned/Leased</u>	<u>Lease Expiration Date</u>	<u>Principal Use (Industry Segment)</u>
Juarez, Mexico	34,400	Leased	12-31-2007	Engineering and Manufacturing (Filtration/Fluid Flow)
Minocqua, WI	30,200	Leased	3-31-2010 (three 3- year renewal options)	Engineering and Manufacturing (Test)
Beijing, China	25,900	Leased	4,500 sq. ft. Office 10-1-2007. 21,400 sq. ft. Plant 3-1-2007	Manufacturing (Test)
Stevenage, England	25,650	Leased	8-11-2017 (option to terminate on 8-12-2007)	Management, Engineering and Manufacturing (Test)
St. Louis, MO	17,100	Leased	8-31-2015 (one 5-year renewal option)	ESCO Headquarters

\* The table does not include an owned vacant facility in Patillas, Puerto Rico, consisting of approximately 110,000 square feet, that was formerly used as a Filtration/Fluid Flow manufacturing facility. The Company ceased operations in this facility in March 2004, and is currently marketing it for sale.

The Company believes its buildings, machinery and equipment have been generally well maintained, are in good operating condition and are adequate for the Company's current production requirements.

### **Item 3. Legal Proceedings**

As a normal incident of the businesses in which the Company is engaged, various claims, charges and litigation are asserted or commenced from time to time against the Company. The Company believes that 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.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

[Table of Contents](#)**Executive Officers of the Registrant**

The following sets forth certain information as of December 13, 2005 with respect to ESCO's executive officers. These officers have been elected to terms which expire at the first meeting of the Board of Directors after the next annual meeting of Stockholders.

Name	Age	Position(s)
Victor L. Richey, Jr.*	48	Chairman, Chief Executive Officer and Director
Charles J. Kretschmer	49	President, Chief Operating Officer and Director
Gary E. Muenster	45	Senior Vice President and Chief Financial Officer
Alyson S. Barclay	46	Vice President, Secretary and General Counsel

\* Also Chairman of the Executive Committee of the Board of Directors.

There are no family relationships among any of the executive officers and directors.

Mr. Richey was Senior Vice President and Group Executive of ESCO from October 2000 until August 2001. Mr. Richey was President and Chief Operating Officer from August 2001 until October 2002. Since October 2002, he has been Chief Executive Officer, and since April 2003, he has also been Chairman.

Mr. Kretschmer was Vice President and Chief Financial Officer of ESCO from October 1999 until February 2001, and Senior Vice President and Chief Financial Officer from February 2001 until February 2002. He was Executive Vice President and Chief Financial Officer from February 2002 to October 2002, and he has been President and Chief Operating Officer since the latter date.

Mr. Muenster was Vice President and Controller of ESCO from May 1998 until October 2002. He was Vice President and Chief Financial Officer from October 2002 until November 2005. Since the latter date, he has been Senior Vice President and Chief Financial Officer.

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

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The information required by this item is incorporated herein by reference to Note 11 of the Notes to Consolidated Financial Statements, "Common Stock Market Price" and "Shareholders' Summary—Capital Stock Information" appearing in the 2005 Annual Report. As of December 5, 2005, there were approximately 2,700 registered holders of Common Stock (not including Company employees holding shares under the Employee Stock Purchase Plan). ESCO does not anticipate, currently or in the foreseeable future, paying cash dividends on the Common Stock, although it reserves the right to do so to the extent permitted by applicable law and agreements. ESCO's dividend policy will be reviewed by the Board of Directors at such future time as may be appropriate in light of relevant factors at that time, based on ESCO's earnings and financial position and such other business considerations as the Board deems relevant. See Item 12 for equity compensation plan information.

REGISTRANT PURCHASES OF EQUITY SECURITIES\*:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2005	0	N.A.	0	0
August 1-31, 2005	0	N.A.	0	0
Sep. 1-30, 2005	0	N.A.	0	0
Total	0	N.A.	0	1,152,966

\* The share numbers in this table and note have been adjusted to reflect the two-for-one stock split effected in September 2005. The repurchase program was first approved on February 8, 2001 for a maximum of 2,600,000 shares. On August 7, 2003, this program was extended to September 30, 2004. On August 10, 2004, it was announced that the program was extended to September 30, 2006, the current expiration

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date. No repurchase program has expired during the period covered by the table. There currently is no repurchase program which the registrant has determined to terminate prior to expiration, or under which the registrant does not intend to make further purchases.

### **Item 6. Selected Financial Data**

The information required by this item, with respect to selected financial data, is incorporated herein by reference to “Five-Year Financial Summary” and Notes 2 and 3 of the Notes to Consolidated Financial Statements appearing in the 2005 Annual Report.

### **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The information required by this item is incorporated herein by reference to “Management’s Discussion and Analysis” appearing in the 2005 Annual Report.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is incorporated herein by reference to “Management’s Discussion and Analysis — Market Risk Analysis” appearing in the 2005 Annual Report.

### **Item 8. Financial Statements and Supplementary Data**

The information required by this item is incorporated herein by reference to the Consolidated Financial Statements of the Company on pages 25 through 49 and the report thereon of KPMG LLP, an independent registered public accounting firm, appearing on page 52 of the 2005 Annual Report.

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

None.

### **Item 9A. Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rules 13A-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of September 30, 2005. Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Management’s Report on Internal Control over Financial Reporting and the attestation report thereon of KPMG LLP are incorporated herein by reference to pages 51 and 53, respectively, in the 2005 Annual Report.

There have been no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

### **Item 9B. Other Information**

None.



**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

Information regarding nominees and directors appearing under “Nominees and Continuing Directors” in the 2006 Proxy Statement is hereby incorporated by reference. Information regarding executive officers is set forth in Part I of this Form 10-K. Information regarding the Audit and Finance Committee and its members appearing under “Board of Directors and Committees” in the 2006 Proxy Statement is hereby incorporated by reference.

Information appearing under “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2006 Proxy Statement is hereby incorporated by reference.

The Company has adopted codes of ethics which apply to its chief executive officer, its chief financial officer and all other senior executives, as well as all Company employees. The following documents are available free of charge through the Company’s internet website at [www.escotechnologies.com](http://www.escotechnologies.com) and in print to any person who requests them: Corporate Governance Guidelines; Charters of the Audit and Finance Committee, Human Resources and Compensation Committee, and Nominating and Corporate Governance Committee; Code of Business Conduct and Ethics; and Code of Ethics for Senior Financial Officers.

**Item 11. Executive Compensation**

Information appearing under “Board of Directors and Committees” and “Executive Compensation” (except for the “Report of the Human Resources And Compensation Committee On Executive Compensation” and the “Performance Graph”) in the 2006 Proxy Statement is hereby incorporated by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information regarding beneficial ownership of shares of common stock by nominees and directors, by executive officers, by directors and executive officers as a group and by any known five percent Stockholders appearing under “Security Ownership of Directors and Executive Officers” and “Security Ownership of Certain Beneficial Owners” in the 2006 Proxy Statement is hereby incorporated by reference.

**Equity Compensation Plan Information:**

The following table summarizes certain information regarding Common Shares that may be issued by the Company pursuant to its equity compensation plans existing as of September 30, 2005. All numbers of Common Shares included in the table and footnotes have been adjusted to reflect the two-for-one stock split effected in September 2005.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)
	(a)	(b)	(c)
Equity compensation plans approved by security holders (2)	1,567,216(3)	\$20.4786(4)	2,389,862(5)(6)
Equity compensation plans not approved by security holders	0	N/A	331,000(7)
<b>Total</b>	<b>1,567,216</b>	<b>\$20.4786</b>	<b>2,720,862</b>

(1) Number of Common Shares is subject to adjustment for any future changes in capitalization for stock splits, stock dividends and similar events.

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- (2) Consists of the Company's 1990, 1994 and 1999 Stock Option Plans, the 2001 Stock Incentive Plan and the 2004 Incentive Compensation Plan. The 1990, 1994 and 1999 Stock Option Plans and the 2001 Stock Incentive Plan have been amended without Stockholder approval in accordance with their terms, as follows: the Company's 1990, 1994 and 1999 Stock Option Plans have been amended to provide for withholding, to provide for adjustment upon a special distribution and/or in certain other respects; the 1994 and 1999 Stock Option Plans have been amended to reflect the change of the Company's name and the elimination of the Company's common stock trust receipts; the 1994 Stock Option Plan was amended to permit the Human Resources and Compensation Committee (the "Committee"), in its discretion, to extend the period during which an optionee who terminates employment on account of retirement on or after age 60 may exercise his stock option to five years after retirement, but before ten years from the date of grant; and the 1990, 1994 and 1999 Stock Option Plans and the 2001 Stock Incentive Plan were amended to authorize the Committee to delegate to the Chief Executive Officer the power to delegate to other employees the power to extend a stock option beyond termination of employment for persons who are not "officers" as defined in Rule 16a-1 under the Exchange Act; and the 1994 and 1999 Stock Option Plans and the 2001 Stock Incentive Plan have been amended to authorize the Committee to delegate to the Chief Executive Officer the power to grant stock options to persons who are not such "officers", with the limitation of 10,000 shares per award and 100,000 shares awarded in the aggregate in any fiscal year.
- (3) Includes 243,336 Common Shares issuable in connection with the vesting and distribution of outstanding performance-accelerated restricted share awards under the Company's 2001 Stock Incentive Plan.
- (4) Does not include 243,336 Common Shares issuable in connection with the vesting and distribution of outstanding performance-accelerated restricted share awards under the 2001 Stock Incentive Plan, for which there are no exercise prices.
- (5) Comprises 9,514 Common Shares under the 1999 Stock Option Plan, 420,348 Common Shares under the 2001 Stock Incentive Plan and 1,960,000 Common Shares under the 2004 Incentive Compensation Plan.
- (6) Does not include shares that may be purchased on the open market pursuant to the Company's Employee Stock Purchase Plan (the "ESPP"). Under the ESPP, participants may elect to have up to 10% of their current salary or wages withheld and contributed to one or more independent trustees for the purchase of Common Shares. At the discretion of an officer of the Company, the Company or a domestic subsidiary or division may contribute cash in an amount not to exceed 20% of the amounts contributed by participants. The total number of Common Shares purchased with the Company's matching contributions, however, may not exceed 183,446. As of September 30, 2005, 17,044 shares had been purchased with the Company's matching funds.
- (7) Represents Common Shares issuable pursuant to the Compensation Plan for Non-Employee Directors (the "Compensation Plan"), which provides for each director to be paid (in addition to other fees) an annual retainer fee payable partially in cash and partially in Common Shares. Periodically, the Human Resources and Compensation Committee of the Board of Directors determines the amount of the retainer fee and the allocation of the fee between cash and Common Shares. The maximum number of Common Shares available for distribution under the Compensation Plan is 400,000 shares. The stock portion of the retainer fee is distributable in quarterly installments. Directors may elect to defer receipt of all of their cash compensation and/or all of the stock portion of the retainer fee. The deferred amounts are credited to the director's deferred compensation account in stock equivalents. Deferred amounts are distributed in Common Shares or cash at such future dates as specified by the director unless distribution is accelerated in certain circumstances, including a change in control of the Company. The stock portion which has been deferred may only be distributed in Common Shares.

### **Item 13. Certain Relationships and Related Transactions**

None.

**Item 14. Principal Accounting Fees and Services**

Information regarding the Company's independent auditors, their fees and services, and the Company's Audit and Finance Committee's pre-approval policies and procedures regarding such fees and services appearing under "III. Independent Auditors" in the 2006 Proxy Statement is hereby incorporated by reference.

**PART IV**

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

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

1. The Consolidated Financial Statements of the Company on pages 25 through 49 and the Report of Independent Registered Public Accounting Firm thereon of KPMG LLP appearing on page 52 of the 2005 Annual Report.
2. Financial Statement Schedules  
II. Valuation and Qualifying Accounts  
Report of Independent Registered Public Accounting Firm  
Other financial statement schedules have been omitted because the subject matter is disclosed elsewhere in the financial statements and notes thereto, not required or not applicable, or the amounts are not sufficient to require submission.
3. Exhibits:

Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
3.1	Restated Articles of Incorporation	Incorporated by Reference, Exhibit 3(a)[1]
3.2	Amended Certificate of Designation, Preferences and Rights of Series A Participating Cumulative Preferred Stock of the Registrant	Incorporated by Reference, Exhibit 4(e)[2]
3.3	Articles of Merger effective July 10, 2000	Incorporated by Reference, Exhibit 3(c)[3]
3.4	Bylaws, as amended and restated	Incorporated by Reference, Exhibit 3.4[4]
4.1	Specimen Common Stock Certificate	Incorporated by Reference, Exhibit 4(a)[3]
4.2	Specimen Rights Certificate	Incorporated by Reference, Exhibit B to Exhibit 4.1[5]

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Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
4.3	Rights Agreement dated as of September 24, 1990 (as amended and restated as of February 3, 2000) between the Registrant and Registrar and Transfer Company, as successor Rights Agent	Incorporated by Reference, Exhibit 4.1[5]
4.4	Credit Agreement dated as of October 6, 2004, among the Registrant, Wells Fargo Bank, N.A., as agent, and the lenders listed therein	Incorporated by Reference, Exhibit 4.4[6]
10.1	Form of Indemnification Agreement with each of ESCO's directors.	Incorporated by Reference, Exhibit 10(k)[7]
10.2	Supplemental Executive Retirement Plan as amended and restated as of August 2, 1993*	Incorporated by Reference, Exhibit 10(n)[8]
10.3	Second Amendment to Supplemental Executive Retirement Plan effective May 1, 2001*	Incorporated by Reference, Exhibit 10.4[9]
10.4	Directors' Extended Compensation Plan*	Incorporated by Reference, Exhibit 10(o)[8]
10.5	First Amendment to Directors' Extended Compensation Plan effective January 1, 2000*	Incorporated by Reference, Exhibit 10.11[10]
10.6	Second Amendment to Directors' Extended Compensation Plan effective April 1, 2001*	Incorporated by Reference, Exhibit 10.7[9]
10.7	1994 Stock Option Plan (as amended and restated effective October 16, 2000)*	Incorporated by Reference, Exhibit 10.1[11]
10.8	Amendment to 1994 Stock Option Plan effective July 18, 2002*	Incorporated by Reference, Exhibit 10(b)[12]
10.9	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10.15[10]
10.10	Severance Plan adopted as of August 10, 1995 (as restated February 5, 2002)*	Incorporated by Reference, Exhibit 10[13]
10.11	Amendment to 1994 Stock Option Plan effective August 7, 2003*	Incorporated by Reference, Exhibit 10.12[4]
10.12	1999 Stock Option Plan (as amended and restated effective October 16, 2000)*	Incorporated by Reference, Exhibit 10.2[11]
10.13	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10.3[11]
10.14	Amendment to 1999 Stock Option Plan effective August 7, 2003*	Incorporated by Reference, Exhibit 10.15[4]
10.15	Employment Agreement with Executive Officer* [13]	Incorporated by Reference, Exhibit 10(bb)[1]

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Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
10.16	Amendment to Employment Agreement with Executive Officer*[14]	Incorporated by Reference, Exhibit 10.18[9]
10.17	Executive Stock Purchase Plan*	Incorporated by Reference, Exhibit 10.24[10]
10.18	Compensation Plan For Non-Employee Directors*	Incorporated by Reference, Exhibit 10.22[9]
10.19	2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit B[16]
10.20	Form of Incentive Stock Option Agreement*	Incorporated by Reference, Exhibit 10.24[17]
10.21	Form of Non-qualified Stock Option Agreement*	Incorporated by Reference, Exhibit 10.25[17]
10.22	Form of Notice of Award—Performance– Accelerated Restricted Stock *	Incorporated by Reference, Exhibit 10.26[17]
10.23	Form of Supplemental Executive Retirement Plan Agreement *	Incorporated by Reference, Exhibit 10.28[17]
10.24	Amendment to 2001 Stock Incentive Plan effective August 7, 2003*	Incorporated by Reference, Exhibit 10.29[4]
10.25	Sixth Amendment and Restatement of Employee Stock Purchase Plan effective as of October 15, 2003*	Incorporated by Reference, Appendix C[18]
10.26	Second Amendment to Employment Agreement with V.L. Richey, Jr. (identical document with C.J. Kretschmer)*	Incorporated by Reference, Exhibit 10.1[19]
10.27	Second Amendment to Employment Agreement with G.E. Muenster (identical document with A.S. Barclay)*	Incorporated by Reference, Exhibit 10.2[19]
10.28	Notice of Award – restricted stock award to V.L. Richey, Jr. (identical documents except for number of shares awarded for: C.J. Kretschmer – 4,750 shares; G.E. Muenster – 2,400 shares; A.S. Barclay – 1,800 shares)*	Incorporated by Reference, Exhibit 10.3[19]
10.29	2004 Incentive Compensation Plan*	Incorporated by Reference, Appendix B[18]
10.30	Summary of Non-Employee Directors' Compensation*	Incorporated by Reference, Exhibit 10.1[20]
10.31	Performance Compensation Plan Amended and Restated as of November 25, 2002*	Incorporated by Reference, Exhibit 10.2[20]
10.32	2005 Performance Measures and Evaluation Criteria under Performance Compensation Plan*	Incorporated by Reference, Exhibit 10.3[20]

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Exhibit Number	Description	Filed Herewith or Incorporated by Reference to Document Indicated By Footnote
10.33	Awards to Executive Officers Not Reported on Form 8-K, October 4, 2004*	Incorporated by Reference, Exhibit 10.4[20]
10.34	Form of Notice of Award-Performance-Accelerated Restricted-Stock under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.5[20]
10.35	Form of Incentive Stock Option Agreement under 2004 Incentive Compensation Plan*	Incorporated by Reference, Exhibit 10.6[20]
10.36	Form of Nonqualified Stock Option Agreement under 2004 Incentive Compensation Plan*	Incorporated by Reference, Exhibit 10.7[20]
10.37	Form of Incentive Stock Option Agreement under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.8[20]
10.38	Form of Nonqualified Stock Option Agreement under 2001 Stock Incentive Plan*	Incorporated by Reference, Exhibit 10.9[20]
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2005: <ul style="list-style-type: none"><li>— Five-Year Financial Summary (p. 54)</li><li>— Management’s Discussion and Analysis (pgs. 12-24)</li><li>— Consolidated Financial Statements (pgs. 25-49 ) and Report of Independent Registered Public Accounting Firm (p. 52)</li><li>— Management’s Report on Internal Control over Financial Reporting (p.51)</li><li>— Report of Independent Registered Public Accounting Firm (p.53)</li><li>— Shareholders’ Summary—Capital Stock Information (p. 55)</li><li>— Common Stock Market Price (p. 54)</li></ul>	
21	Subsidiaries of ESCO	
23	Consent of Independent Registered Accounting Firm	
31.1	Certification of Chief Executive Officer	
31.2	Certification of Chief Financial Officer	
32	Certification of Chief Executive Officer and Chief Financial Officer	

[1] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1999, at the Exhibit indicated.

[2] Incorporated by reference to Form 10-Q for the fiscal quarter ended March 31, 2000, at the Exhibit indicated.

[3] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2000, at the Exhibit indicated.

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- [4] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2003, at the Exhibit indicated.
  - [5] Incorporated by reference to Current Report on Form 8-K dated February 3, 2000, at the Exhibit indicated.
  - [6] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2004, at the Exhibit indicated.
  - [7] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1991, at the Exhibit indicated.
  - [8] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1993, at the Exhibit indicated.
  - [9] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2001, at the Exhibit indicated.
  - [10] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2000, at the Exhibit indicated.
  - [11] Incorporated by reference to Form 10-Q for the fiscal quarter ended December 31, 2000, at the Exhibit indicated.
  - [12] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2002, at the Exhibit indicated.
  - [13] Incorporated by reference to Form 10-Q for the fiscal quarter ended March 31, 2002, at the Exhibit indicated.
  - [14] Identical Employment Agreements between ESCO and executive officers A.S. Barclay, G.E. Muenster and V.L. Richey, Jr., except that in the cases of Ms. Barclay and Mr. Muenster the minimum annual salary is \$94,000 and \$108,000, respectively.
  - [15] Identical Amendments to Employment Agreements between ESCO and executive officers A.S. Barclay, G.E. Muenster and V.L. Richey, Jr.
  - [16] Incorporated by reference to Notice of Annual Meeting of the Stockholders and Proxy Statement dated December 11, 2000, at the Exhibit indicated.
  - [17] Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2002, at the Exhibit indicated.
  - [18] Incorporated by reference to Notice of Annual Meeting of the Stockholders and Proxy Statement dated December 29, 2003, at the Appendix indicated.
  - [19] Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2004, at the Exhibit indicated.
  - [20] Incorporated by reference to Form 10-Q for the fiscal quarter ended December 31, 2004, at the Exhibit indicated.
- \* Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(c) of this Part IV.

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- (b) Exhibits: Reference is made to the list of exhibits in this Part IV, Item 15(a)3 above.
- (c) Financial Statement Schedules: Reference is made to Part IV, Item 15(a)2 above.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ESCO TECHNOLOGIES INC.

Date: December 13, 2005

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below effective December 13, 2005, by the following persons on behalf of the registrant and in the capacities indicated.

<u>SIGNATURE</u>	<u>TITLE</u>
<u>/s/ V.L. Richey, Jr.</u> V.L. Richey, Jr.	Chairman, Chief Executive Officer and Director
<u>/s/ C.J. Kretschmer</u> C.J. Kretschmer	President, Chief Operating Officer and Director
<u>/s/ G.E. Muenster</u> G.E. Muenster	Sr. Vice President and Chief Financial Officer, Principal Accounting Officer
<u>/s/ W.S. Antle III</u> W.S. Antle III	Director
<u>/s/ J.M. McConnell</u> J.M. McConnell	Director
<u>/s/ L.W. Solley</u> L.W. Solley	Director
<u>J.M. Stolze</u>	Director
<u>/s/ D.C. Trauscht</u> D.C. Trauscht	Director
<u>/s/ J.D. Woods</u> J.D. Woods	Director

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ESCO Technologies Inc.  
Schedule II – Valuation and Qualifying Accounts  
Years Ended September 30, 2005, 2004 and 2003

(Dollars in thousands)	Balance at Beginning of Period	Additions Charged to Expense	Deductions	Balance at End of Period
<b>2003</b>				
Allowance for doubtful accounts	\$ 606	336	208	734
Warranty reserve	\$ 1,484	2,536	2,646	1,374
<b>2004</b>				
Allowance for doubtful accounts	\$ 734	114	222	626
Warranty reserve	\$ 1,374	3,206	2,433	2,147
<b>2005</b>				
Allowance for doubtful accounts	\$ 626	87	128	585
Warranty reserve	\$ 2,147	1,108	1,768	1,487

Note: Amounts above exclude discontinued operations.

Report of Independent Registered Public Accounting Firm

The Board of Directors  
ESCO Technologies Inc.:

Under date of December 9, 2005, we reported on the consolidated balance sheets of ESCO Technologies Inc. and subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2005; management's assessment of the effectiveness of internal control over financial reporting as of September 30, 2005 and the effectiveness of internal control over financial reporting as of September 30, 2005, which are incorporated herein by reference. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 15 of the notes to consolidated financial statements, on July 1, 2003, the Company adopted Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities."

/s/ KPMG LLP  
St. Louis, Missouri  
December 9, 2005

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INDEX TO EXHIBITS

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

Exhibit No.	Exhibit
13	The following-listed sections of the Annual Report to Stockholders for the year ended September 30, 2005: <ul style="list-style-type: none"><li>§ Five-year Financial Summary (p. 54)</li><li>§ Management’s Discussion and Analysis (pgs. 12-24)</li><li>§ Consolidated Financial Statements (pgs. 25-49) and Report of Independent Registered Public Accounting Firm (p. 52)</li><li>§ Management’s Report on Internal Control over Financial Reporting (p.51)</li><li>§ Report of Independent Registered Public Accounting Firm (p.53)</li><li>§ Shareholders’ Summary—Capital Stock Information (p. 55)</li><li>§ Common Stock Market Price (p. 54)</li></ul>
21	Subsidiaries of ESCO
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32	Certification of Chief Executive Officer and Chief Financial Officer
See Item 15(a)3 for a list of exhibits incorporated by reference	

FIVE-YEAR FINANCIAL SUMMARY

	2005	2004	2003	2002	2001
	-----	-----	-----	-----	-----
(Dollars in millions, except per share amounts)					
For years ended September 30:					
Net sales	\$429.1	422.1	396.7	316.6	298.3
Net earnings from continuing operations	43.5	37.8	26.7	23.3	31.1
Net earnings (loss) from discontinued operations	--	(2.1)	(66.5)	(1.6)	(1.0)
Net earnings (loss) before accounting change	43.5	35.7	(39.7)	21.8	30.1
Net earnings (loss)	43.5	35.7	(41.1)	21.8	30.1
Earnings (loss) per share:					
Basic:					
Continuing operations	1.71	1.47	1.05	0.93	1.26
Discontinued operations	--	(0.09)	(2.62)	(2.62)	(0.04)
Cumulative effect of accounting change, net of tax	--	--	(0.06)	--	--
	-----	-----	-----	-----	-----
Net earnings (loss)	1.71	1.38	(1.63)	0.87	1.22
Diluted:					
Continuing operations	1.66	1.42	1.02	0.90	1.22
Discontinued operations	--	(0.08)	(2.53)	(0.06)	(0.04)
Cumulative effect of accounting change, net of tax	--	--	(0.06)	--	--
	-----	-----	-----	-----	-----
Net earnings (loss)	1.66	1.34	(1.57)	0.84	1.18
As of September 30:					
Working capital	202.2	165.2	120.5	112.6	87.4
Total assets	428.7	402.4	393.4	407.7	375.6
Long-term debt	--	0.4	0.5	0.5	0.6
Shareholders' equity	\$331.0	307.6	275.4	306.3	287.3
	=====	=====	=====	=====	=====

See note 2 of notes to consolidated financial statements for discussion of acquisition and divestiture activity.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. The years 2005, 2004 and 2003 represent the fiscal years ended September 30, 2005, 2004 and 2003, respectively, and are used throughout the document. During 2005, the Company had a 2-for-1 stock split which was effected as a 100 percent stock dividend and was paid on September 23, 2005 to shareholders of record as of September 9, 2005. The prior years common stock and per share amounts have been adjusted to reflect the stock split.

### INTRODUCTION

ESCO Technologies Inc. and its wholly owned subsidiaries (ESCO, the Company) is organized into three operating units: Filtration/ Fluid Flow, Communications, and RF Shielding and Test (Test). The Filtration/Fluid Flow unit develops, manufactures and markets a broad range of filtration products used in the purification and processing of liquids and gases. These engineered filtration products utilize membrane, precision screen and other technologies to protect critical processes and equipment from contaminants. Major applications include the removal of contaminants in fuel, lubrication and hydraulic systems, various health care applications, industrial processing, satellite propulsion systems, and oil production. The Communications unit provides a well-proven power line based communications system to the electric utility industry. The Two-Way Automatic Communications System, known as the TWACS(R) system, is currently used for automatic meter reading (AMR) and related advanced metering functions, as well as having load management capabilities. The Securvision product line provides digital video surveillance and security functions for large commercial enterprises and alarm monitoring companies. The Test unit is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy. The Company's business segments are comprised of the following primary operating entities:

- - Filtration/Fluid Flow: Filtertek Inc. (Filtertek), PTI Technologies Inc. (PTI), and VACCO Industries (VACCO),
- - Communications: Distribution Control Systems, Inc. (DCSI) and Comtrak Technologies, L.L.C. (Comtrak),
- - Test: EMC Group consisting of ETS-Lindgren L.P. (ETS) and Lindgren RF Enclosures, Inc. (Lindgren).

The divestiture of the Microfiltration and Separations businesses (MicroSep) was completed during the third quarter of fiscal 2004. The MicroSep businesses (previously included in the Filtration segment) included PTI Advanced Filtration Inc. (PTA), PTI Technologies Limited (PTL) and PTI S.p.A. (PTB). Rantec Power Systems Inc. (Rantec) was divested in April 2003. The MicroSep businesses and Rantec are accounted for as "discontinued operations."

ESCO continues to operate with meaningful growth prospects in its primary served markets and with considerable financial flexibility. The Company continues to focus on new products that incorporate proprietary design and process technologies. Management is committed to delivering shareholder value through internal growth, ongoing performance improvement initiatives, and selective acquisitions.

### HIGHLIGHTS OF 2005 CONTINUING OPERATIONS

- - Sales were \$429.1 million in 2005 compared to \$422.1 million in 2004.
- - Net earnings were \$43.5 million, or \$1.66 per share in 2005 compared to net earnings of \$35.7 million, or \$1.34 per share in 2004.
- - Net cash provided by operating activities was \$68.6 million.
- - At September 30, 2005, cash on hand was \$104.5 million.
- - The Company further expanded its capabilities, presence and sales volume in the Asian Test markets.
- - The Company received a \$19 million order from TXU Electric Delivery Company (TXU) for AMR products and began delivering to TXU in June 2005. In November 2005, the Company received an additional \$9.1 million order for a 100,000 electric endpoint expansion of the existing program at TXU.
- - In November 2005, the Company signed an agreement to deliver AMR products to Pacific Gas & Electric (PG&E) for approximately five million electric customers over a five year deployment period beginning in late fiscal 2006. The total anticipated contract value is expected to be approximately \$300 million. See further discussion in Management's Discussion and Analysis under the heading of "Recent Development."

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

The following discussion refers to the Company's results from continuing operations, except where noted. Rantec and the MicroSep businesses are accounted for as discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, amounts in the financial statements and related notes for all periods presented reflect discontinued operations.

NET SALES

	Fiscal year ended			CHANGE 2005 VS. 2004	Change 2004 vs. 2003
	2005	2004	2003		
(Dollars in millions)					
Filtration/Fluid	\$171.7	173.9	164.1	(1.3)%	6.0%
Flow Communications	138.0	137.8	142.3	0.1%	(3.2)%
Test	119.4	110.4	90.3	8.2%	22.3%
Total	\$429.1	422.1	396.7	1.7%	6.4%

Favorable foreign currency values contributed approximately \$3.6 million to the increase in net sales in 2005 from prior year.

FILTRATION/FLUID FLOW

Net sales in 2005 decreased 1.3% compared to 2004 primarily as a result of lower defense spares shipments at VACCO of \$4.3 million, a net sales decrease at Filtertek of \$0.5 million driven by lower automotive shipments, partially offset by higher commercial and military aerospace shipments at PTI of \$2.6 million. Filtertek's current year sales were relatively flat compared to the prior year as the lower automotive shipments were partially offset by higher medical product revenues.

Net sales in 2004 increased 6.0% primarily as a result of higher defense aerospace shipments at VACCO of \$5.9 million, a net sales increase at Filtertek of \$2.8 million driven by favorable foreign currency exchange rates related to its European operations, and increased shipments of industrial products at PTI of \$1.1 million.

COMMUNICATIONS

The 0.1 % increase in net sales in 2005 as compared to the prior year was due to \$10.5 million of higher shipments of Comtrak's SecurVision(R) video security products. This increase was almost entirely offset by a \$10.3 million decrease in sales of AMR products.

The decrease in sales of AMR products in 2005 versus 2004 is mainly due to the wind-down of a contract with PPL Electric Utilities Corporation (PPL). Sales to PPL decreased \$19.3 million in 2005, and were \$2.4 million, \$21.6 million and \$63.9 million in 2005, 2004 and 2003, respectively. Sales to other investor owned utilities (IOUs), such as Bangor Hydro-Electric Company (Bangor), Idaho Power Company (Idaho), and the Puerto Rico Electric Power Authority (PREPA) decreased \$17.9 million in 2005 versus 2004. This \$17.9 million decrease in sales was partially offset by \$7.2 million in sales to TXU Electric Delivery Company (TXU) and \$19.8 million of higher AMR product sales to the electric utility cooperative (COOP) market and other customers. DCSI's sales to customers other than PPL were \$119.5 million, \$110.5 million and \$70.0 million in 2005, 2004 and 2003, respectively.

Sales of SecurVision products were \$16.1 million, \$5.6 million, and \$8.4 million in 2005, 2004 and 2003, respectively. The increase in sales in 2005 versus 2004 was due to a delay in deliveries in 2004 as a result of a significant customer requesting Comtrak to modify its software operating system to provide enhanced "virus" protection within the product.

The 3.2% decrease in net sales in 2004 as compared to 2003 is the result of lower shipments to PPL and reduced sales of SecurVision products. The decrease in sales to PPL in fiscal 2004 was partially offset by significantly higher shipments to the COOP market and other customers including Bangor and Idaho.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### TEST

The net sales increase of 8.2% in 2005 as compared to the prior year was mainly due to the following: an \$11.5 million increase in net sales from the Company's U.S. operations driven by the successful completion of the design on a large Boeing project, additional test chamber installations, higher component sales, and the installation of several government shielding projects; a \$4.3 million increase in sales from the Company's Asian operations; partially offset by a \$6.9 million decrease in net sales from the Company's European operations due to the completion of two large test chamber projects in 2004.

The net sales increase of 22.3% in 2004 as compared to the prior year was mainly due to the following: higher European sales of approximately \$14.0 million driven primarily by two large test chamber projects which contributed approximately \$9.5 million to the increase; a \$3.0 million increase in sales of government and industrial shielding projects; and a \$3.3 million increase in sales from the Company's Asian operations.

### ORDERS AND BACKLOG

New orders received in 2005 were \$413.1 million, resulting in an order backlog of \$233.1 million at September 30, 2005 as compared to order backlog of \$249.1 million at September 30, 2004. In 2005, the Company recorded \$174.4 million of new orders related to Filtration products, \$121.5 million related to Test products, and \$117.2 million related to Communications products.

Within the Communications segment, DCSI received \$105.1 million, \$106.3 million and \$93.7 million of new orders for its AMR products in 2005, 2004 and 2003, respectively. In 2005, DCSI received a \$19 million order from TXU and subsequent to fiscal year-end, the Company received an additional \$9.1 million order in November 2005 for a 100,000 endpoint expansion of the existing program at TXU. In addition, in November 2005, DCSI signed an agreement with PG&E for approximately \$300 million covering five million endpoints over a five year deployment period beginning in fiscal 2006. See further discussion in Management's Discussion and Analysis under the heading "Recent Development."

During 2005, the Filtration/Fluid Flow segment received an \$18.0 million multi-year order for quiet valves and manifold assemblies used on the Virginia Class Submarine which is expected to be delivered over the next three years.

In 2004, the Company recorded \$165.4 million of new orders related to Filtration products, \$126.8 million related to Test products, and \$116.0 million related to Communications products. In August 2004, the Test segment received a \$21.0 million order from the Boeing Company (Boeing) to provide an electromagnetic test center to the Agency for Defense Development of South Korea. The project is scheduled for completion in December 2007.

### GROSS PROFIT

The Company computes gross profit as net sales less cost of sales less asset impairment charges. The gross profit margin is the gross profit divided by net sales, expressed as a percentage. The gross profit margin was 34.1 %, 33.0% and 30.5% in 2005, 2004 and 2003, respectively. The 2005 gross profit margin was negatively impacted by \$0.8 million of asset impairment charges described below. The increase in gross profit margin in fiscal 2005 as compared to the prior years was mainly due to higher margins on shipments in the Communications segment including the favorable sales mix of AMR products resulting from additional sales to the COOP market and component cost savings realized on DCSI's modules.

### ASSET IMPAIRMENT

In June 2005, the Company abandoned its plans to commercialize certain sensor products at PTI, which resulted in an asset impairment charge of \$0.8 million to write-off certain patents and a related licensing agreement. The Company ended its development efforts on this program after it determined that the market was not developing as quickly as anticipated and the expected costs and timeframe to fully commercialize the products were not acceptable.

The \$4.5 million asset impairment charge in 2003 related to the closure of Filtertek's operation in Puerto Rico and the consolidation of the Test business manufacturing facility in the U.K. The Puerto Rico charge of \$4.3 million resulted from the write-down of the Puerto Rico building and equipment from their respective carrying value to their estimated fair market value. The U.K. Test charge of \$0.2 million resulted from the write-off of abandoned leasehold improvements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (SG&A) were \$84.8 million, or 19.8% of net sales in 2005, \$78.0 million, or 18.5% of net sales in 2004, and \$73.2 million, or 18.5% of net sales in 2003.

The increase in SG&A expenses in 2005 as compared to the prior year is primarily due to an increase of \$4.9 million associated with engineering, marketing and new product development within the Communications segment in pursuit of the IOU market. The increase in SG&A expenses in 2004 as compared to 2003 was mainly due to higher personnel costs across the Company and costs associated with engineering, marketing and new product development within the Communications segment.

OTHER (INCOME) AND EXPENSES, NET

Other (income) and expenses, net, were \$(0.6) million, \$1.6 million and \$4.7 million in 2005, 2004 and 2003, respectively. Other (income) and expenses, net, in 2005 consisted primarily of the following items: \$(2.2) million of royalty income; \$1.0 million of amortization expense of identifiable intangible assets (primarily patents, licenses and software); and a \$0.5 million write-off of fixed assets related to the termination of a supply agreement with a medical device customer.

Other (income) and expenses, net, of \$1.6 million in 2004 consisted primarily of the following items: \$0.8 million of exit costs related to the Puerto Rico facility; \$1.0 million of amortization of identifiable intangible assets (primarily patents, licenses and software); a \$(0.6) million gain from the settlement of a claim related to a former defense subsidiary divested in 1999; and a \$0.4 million charge for the settlement of a claim involving a former defense subsidiary divested in 1996.

Other (income) and expenses, net, of \$4.7 million in 2003 consisted primarily of the following items: a \$2.6 million interest rate swap charge related to the cancellation and repayment of the interest rate swap associated with a synthetic lease obligation; \$2.4 million amortization of identifiable intangible assets; \$(2.1) million gain on the settlement of patent litigation related to the defense of certain revenue generating patents at Filtrertek used in the Filtration business; and \$0.6 million of Puerto Rico and U.K. consolidation costs primarily related to the physical shutdown and move-related costs.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

The Company evaluates the performance of its operating segments based on EBIT, which the Company defines as earnings from continuing operations before interest and taxes.

EBIT is not a defined GAAP measure. However, the Company believes that EBIT provides investors and Management with a valuable and alternative method for assessing the Company's operating results. Management evaluates the performance of its operating segments based on EBIT and believes that EBIT is useful to investors to demonstrate the operational profitability of the Company's business segments by excluding interest and taxes, which are generally accounted for across the entire company on a consolidated basis. EBIT is also one of the measures Management uses to determine resource allocations and incentive compensation.

	Fiscal year ended			CHANGE 2005 VS. 2004	Change 2004 vs. 2003
	2005	2004	2003		
(Dollars in millions)					
Filtration/Fluid Flow	\$22.4	21.8	18.8	2.8%	16.0%
% of net sales	13.1%	12.5%	11.5%	0.6%	1.0%
Communications	38.8	38.4	33.5	1.0%	14.6%
% of net sales	28.1%	27.9%	23.5%	0.2%	4.4%
Test	12.2	11.3	7.5	8.0%	50.7%
% of net sales	10.2%	10.2%	8.3%	--%	1.9%
Corporate	(11.4)	(11.8)	(16.7)	(3.4)%	(29.3)%
Total	\$62.0	59.7	43.1	3.9%	38.5%
% of net sales	14.4%	14.1%	10.9%	0.3%	3.2%
	=====	=====	=====	=====	=====

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2005 EBIT increased in all three operating units as compared to the prior year, with the greatest contribution from the Test segment resulting from changes in sales mix and contributions from its Asian operations.

The reconciliation of EBIT to a GAAP financial measure is as follows (dollars in millions):

	2005	2004	2003
	-----	-----	-----
EBIT	\$ 62.0	59.7	43.1
Add: Interest income	1.9	0.8	0.2
Less: Income taxes	(20.4)	(22.7)	(16.6)
	-----	-----	-----
Net earnings from continuing operations	\$ 43.5	37.8	26.7
	=====	=====	=====

See Note 14 of notes to consolidated financial statements for additional discussion.

### FILTRATION/FLUID FLOW

EBIT increased in 2005 as compared to the prior year primarily due to the following: a \$2.5 million increase at Filtertek, which included a \$1.9 million gain related to the termination of a supply agreement with a medical device customer; a \$1.4 million increase at PTI due to higher shipments of aerospace products; partially offset by the \$0.8 million asset impairment charge at PTI; and a \$3.3 million decrease at VACCO due to significantly lower defense spares shipments. In 2005, Filtertek experienced an increase in its raw material costs on petroleum based resins which negatively impacted EBIT.

EBIT increased in 2004 as compared to 2003 mainly due to a \$3.1 million increase at VACCO due to higher defense shipments, partially offset by a \$0.5 million decrease at PTI due to changes in sales mix. The 2004 results were negatively impacted by \$1.3 million of severance and exit costs related to the Filtertek Puerto Rico facility. The closure and relocation of the Puerto Rico facility was completed in March 2004.

### COMMUNICATIONS

The increase in EBIT in 2005 as compared to the prior year was due to the following: a \$4.6 million increase at Comtrak due to significantly higher shipments of its video security products, partially offset by a \$4.2 million decrease at DCSI. DCSI has continued to increase its engineering and new product development expenditures in order to accommodate the anticipated growth in the AMR markets, and to further differentiate its technology from the competition.

The increase in EBIT in 2004 as compared to 2003 was mainly due to the favorable sales mix at DCSI resulting from additional sales to the COOP market versus IOU sales and product cost reductions realized in its AMR modules. Comtrak's EBIT decreased approximately \$1.3 million in 2004 as compared to the prior year due to the decreased sales as a result of the software modifications noted earlier.

### TEST

EBIT in 2005 included the following: a \$0.9 million increase in EBIT from the Company's U.S. operations driven by favorable changes in sales mix resulting from additional sales of antennas and other components partially offset by installation cost overruns incurred on certain government shielding projects, as well as increased material costs for steel and copper.

The increase in EBIT in fiscal 2004 as compared to 2003 was mainly due to increases in sales volumes primarily driven by two large test chamber projects in Europe and an increase in sales of government and industrial shielding projects.

### CORPORATE

Corporate office operating charges included in consolidated EBIT decreased 3.4% in 2005 as compared to the prior year. Fiscal 2005 included an increase of \$0.5 million for professional fees as compared to the prior year. Fiscal 2004 included \$0.9 million of severance related costs and 2003 included the \$2.6 million interest rate swap charge and \$1.4 million of compensation costs related to the former Chairman. The "Reconciliation to Consolidated Totals (Corporate)" in note 14 to the consolidated financial statements represents Corporate office operating charges.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTEREST INCOME

Interest income was \$1.9 million in 2005, \$0.8 million in 2004 and \$0.2 million in 2003. The increase in interest income in 2005 as compared to the prior year was due to higher average cash balances on hand during the year and a \$0.2 million refund of lookback interest related to income taxes. The increase in interest income in 2004 as compared to 2003 was due to higher average cash balances on hand during the year and interest received in 2004 on the collection of a note receivable related to a property sale which occurred in December 1999.

### INCOME TAX EXPENSE

The effective tax rate for continuing operations in 2005 was 31.9% compared to 37.6% in 2004 and 38.4% in 2003. The decrease in the effective tax rate for continuing operations in 2005 as compared to the prior year was due to the timing and volume of profit contributions of DCSI's foreign operations (Puerto Rico), which resulted in a 4.6% favorable adjustment to the Company's foreign tax rate differential. The decrease in the effective tax rate for continuing operations in 2004 as compared to 2003 was due to the closure and relocation of the Filtertek Puerto Rico facility during 2004 which improved the Company's foreign tax rate differential.

### CAPITAL RESOURCES AND LIQUIDITY

Working capital (current assets less current liabilities) increased to \$202.2 million at September 30, 2005 from \$165.2 million at September 30, 2004. During 2005, cash and cash equivalents increased by \$32.2 million, net of \$24.9 million of open market share repurchases by the Company.

The \$8.9 million decrease in accounts receivable at September 30, 2005 is mainly due to an \$8.0 million decrease in the Communications segment due to more efficient cash collections from PREPA. The \$4.4 million increase in inventories at September 30, 2005 is mainly due to a \$2.7 million increase in the Test segment due to the expected increase in near term sales and a \$2.5 million increase in the Communications segment due to new product offerings and additional safety stock to satisfy existing customer requirements.

Net cash provided by operating activities was \$68.6 million, \$61.0 million and \$39.0 million in 2005, 2004 and 2003, respectively. The increase in 2005 as compared to the prior years is the result of higher earnings and lower cash requirements related to MicroSep.

Capital expenditures for continuing operations were \$8.8 million, \$10.8 million and \$10.6 million in 2005, 2004 and 2003, respectively. Major expenditures in 2005 and 2004 included manufacturing equipment and facility modifications used in the Filtration segment. There were no commitments outstanding that were considered material for capital expenditures at September 30, 2005.

At September 30, 2005, other assets (non-current) of \$27.7 million included \$17.1 million of capitalized software. Approximately \$15 million of the capitalized software balance represents external development costs on new software development called "TNG" within the Communications segment to further penetrate the investor owned utility market. TNG has been in development with a third party software contractor for the past two years. TNG is being deployed to efficiently handle the additional levels of communications dictated by the size of the service territories and the frequency of reads that are required under time-of-use or critical peak pricing scenarios needed to meet the requirements of large IOUs. The Company expects to incur another \$15 million to \$20 million in costs over the next two years. At September 30, 2005 the Company had approximately \$7 million of commitments related to TNG version 1.5 which is expected to be spent over the next six months.

During 2005, the Company reached a settlement in the defense of a certain revenue-generating patent used in the Filtration business. Under the terms of the agreement, the Company received a cash payment of \$1.5 million, and in 2005 the Company recognized a gain of \$0.3 million, after deducting \$0.2 million of professional fees related to the settlement. The unrecognized gain is being recorded on a straight-line basis in Other (income) and expenses, net, over the remaining patent life, through 2011.

At September 30, 2005, the Company had an available NOL carryforward for tax purposes of approximately \$45 million. This NOL will expire in its entirety in 2019, and will be available to reduce future Federal income tax cash payments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The closure and relocation of the Filtrertek Puerto Rico facility were completed in March 2004. The Puerto Rico facility is included in other current assets with a carrying value of \$3.6 million at September 30, 2005. The facility is being marketed for sale.

In 2004, the Company received \$2.1 million as final payment on the note receivable from the sale of the Riverhead, NY, property which was sold in 1999.

## RECENT DEVELOPMENT

On November 7, 2005, the Company announced that DCSI had entered into a contract to provide equipment, software and services to Pacific Gas & Electric (PG&E) in support of the electric portion of PG&E's Advanced Metering Infrastructure (AMI) project. PG&E's current AMI project plan calls for the purchase of TWACS(R) communication equipment for approximately five million electric customers over a five-year period after the commencement of full deployment. The total anticipated contract value from commencement through the five-year full deployment period is expected to be approximately \$300 million. PG&E also has the right to purchase additional equipment and services to support existing and new customers through the twenty to twenty-five year term of the contract. Equipment will be purchased by PG&E only upon issuance of purchase orders and release authorizations. PG&E will continue to have the right to purchase products or services from other suppliers for the electric portion of the AMI project. Full deployment is contingent upon satisfactory system testing, regulatory approval and final PG&E management approval all of which are expected to be concluded during fiscal 2006. DCSI has agreed to deliver to PG&E versions of its newly developed TNG software as they become available and are tested. Acceptance of the final version for which DCSI has committed is currently anticipated in the latter portion of fiscal 2007. Until such acceptance is obtained, the Company will be required under U.S. financial accounting standards to defer revenue recognition. The contract provides for liquidated damages in the event of DCSI's late development or delivery of hardware and software, and includes indemnification and other customary provisions. The contract may be terminated by PG&E for default, for its convenience and in the event of a force majeure lasting beyond certain prescribed periods. The Company has guaranteed the obligations of DCSI under the contract. If PG&E terminates the contract for its convenience, DCSI will be entitled to recover certain costs.

## ACQUISITIONS

On July 1, 2004, the Company acquired certain intellectual property and physical assets of CIC Global LLC, of Brentwood, Tennessee (CIC) for approximately \$0.3 million in cash. CIC designs, manufactures and distributes prepayment systems for the electric utility market. The assets, liabilities and results of operations since the date of acquisition are included within the Communications segment.

On December 31, 2002, the Company acquired the assets and certain liabilities of Austin Acoustics Systems, Inc. (Austin Acoustics) for \$4.0 million in cash. Austin Acoustics, headquartered in Austin, TX, is a leading supplier of noise control chambers for the test, medical and broadcast/music industries. The assets, liabilities and results of operations since the date of acquisition are included within the Test segment.

All of the Company's acquisitions have been accounted for using the purchase method of accounting, and accordingly, the respective purchase prices were allocated to the assets (including intangible assets) acquired and liabilities assumed based on estimated fair values at the date of acquisition. The financial results from these acquisitions have been included in the Company's financial statements from the date of acquisition.

## DIVESTITURES

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 \$18.0 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 aftertax gain of \$1.6 million related to the sale of these MicroSep businesses is reflected in the Company's 2004 results in discontinued operations. These businesses are accounted for as a discontinued operation in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and accordingly, amounts in the financial statements and related notes for all periods shown, reflect discontinued operations presentation. The announcement of the planned sale resulted in a non-cash after-tax charge of approximately \$60 million in the fourth quarter of fiscal 2003, primarily related to goodwill and other intangible assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In April 2003, the Company completed the sale of Rantec Power Systems Inc. (Rantec) to an entity owned by a group of investors primarily comprised of the subsidiary's management. A pretax gain of \$1.6 million related to the sale is reflected in the Company's 2003 results in discontinued operations. Rantec is accounted for as a discontinued operation in accordance with SFAS 144.

BANK CREDIT FACILITY

Effective October 6, 2004, the Company entered into a \$100 million revolving credit facility with a \$50 million increase option that has a final maturity and expiration date of October 6, 2009. The credit facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of six banks, led by Wells Fargo Bank as agent.

The credit facility requires, as determined by certain financial ratios, a commitment fee ranging from 17.5-27.5 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the LIBOR or based on the prime rate, at the Company's election. The credit facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility include limitations on leverage, minimum consolidated EBITDA and minimum net worth.

At September 30, 2005, the Company had approximately \$98.6 million available to borrow under the credit facility in addition to its \$104.5 million cash on hand. At September 30, 2005, the Company had no borrowings, and outstanding letters of credit of \$2.5 million. As of September 30, 2005, the Company was in compliance with all bank covenants.

Cash flow from operations and borrowings under the bank credit facility are expected to provide adequate resources to meet the Company's capital requirements and operational needs for the foreseeable future.

CONTRACTUAL OBLIGATIONS

The following table shows the Company's contractual obligations as of September 30, 2005 (dollars in millions):

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligation	\$ --	--	--	--	--
Capital Lease Obligations	0.8	0.3	0.4	0.1	--
Operating Lease Obligations	20.6	5.4	8.1	3.0	4.1
Purchase Obligations(1)	7.0	7.0	--	--	--
Total	\$28.4	12.7	8.5	3.1	4.1

(1) A purchase obligation is defined as a legally binding and enforceable agreement to purchase goods and services that specifies all significant terms. Since the majority of the Company's purchase orders can be cancelled, they are not included in the table above. TNG software development costs through version 1.5 is included.

The Company has no off balance sheet arrangements outstanding at September 30, 2005.

SHARE REPURCHASES

In August 2004, the Company's Board of Directors approved the extension of the previously authorized (February 2001) open market repurchase program originally authorizing up to 2.6 million shares, which is subject to market conditions and other factors and covers the period through September 30, 2006. The Company repurchased 670,072, 312,400 and 85,762 shares in 2005, 2004, and 2003, respectively and has 1,152,966 shares remaining for repurchase under this program at September 30, 2005. These amounts are shown on an adjusted basis to account for the 2-for-1 stock split which occurred on September 23, 2005.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### PENSION FUNDING REQUIREMENTS

The minimum cash funding requirements related to the Company's defined benefit pension plans are zero in 2006, \$3.5 million in 2007 and approximately \$2.6 million in 2008.

### SYNTHETIC LEASE OBLIGATION - 2003

Effective July 1, 2003, the Company adopted FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) which required it to consolidate its \$31.5 million synthetic lease obligation, previously accounted for as an operating lease, onto its balance sheet. Upon consolidation, the Company recorded \$29.2 million of property, plant and equipment, \$31.5 million of long term debt and a non-cash after tax charge--reported as a cumulative effect of a change in accounting principle--of \$1.4 million. In September 2003, the Company repaid the \$31.5 million of debt related to the synthetic lease obligation and cancelled the \$10.6 million letter of credit. The synthetic lease facility was dissolved and there are no further obligations.

### PATENT LITIGATION SETTLEMENT - 2003

During 2003, the Company reached a settlement in the defense of a certain revenue-generating patent used in the Filtration business. Under the terms of the agreement, the Company received \$7.3 million in 2003, and the Company recorded a gain of \$2.1 million, after deducting \$1.4 million of professional fees related to the settlement. The unrecognized gain is being recognized on a straight-line basis in Other (income) and expenses, net, over the remaining patent life, through 2011.

### OTHER

Management believes that, for the periods presented, inflation has not had a material effect on the Company's results of operations.

The Company is currently involved in various stages of investigation and remediation relating to environmental matters. Based on current information available, Management does not believe the aggregate costs involved in the resolution of these matters will have a material adverse effect on the Company's operating results, capital expenditures or competitive position.

### MARKET RISK ANALYSIS

#### MARKET RISK EXPOSURE

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates.

During 2004, in conjunction with the sale of PTI S.p.A., the Company repaid its \$8.0 million Euro denominated debt, and at the same time, the Company terminated its \$5.0 million interest rate swap obligation, resulting in a cash payment of \$0.1 million by the Company. At September 30, 2005, the Company had no further obligations related to interest rate swaps.

During 2003, the Company had interest rate exposure relating to its floating rate synthetic lease obligations and, accordingly, the Company previously entered into interest rate swaps of approximately \$31.5 million to mitigate this exposure. In conjunction with the repayment of the Company's synthetic lease obligation in the fourth quarter of fiscal 2003, the Company repaid and cancelled the related interest rate swap associated with this obligation. This resulted in a pretax charge of approximately \$2.6 million recorded in the fourth quarter of fiscal 2003 as well as an after-tax reduction in accumulated other comprehensive loss of \$1.8 million.

The Company is also subject to foreign currency exchange rate risk inherent in its sales commitments, anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. The currency most significant to the Company's operations is the Euro. Net sales to customers outside of the United States were \$103.8 million, \$91.5 million, and \$74.7 million in 2005, 2004 and 2003, respectively. The Company hedges certain foreign currency commitments by purchasing foreign currency forward contracts. The estimated fair value of open forward contracts at September 30, 2005 was not material.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, Management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported under different conditions or using different assumptions related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Company's senior Management discusses the critical accounting policies described below with the Audit and Finance Committee of the Company's Board of Directors on a periodic basis.

The following discussion of critical accounting policies is intended to bring to the attention of readers those accounting policies which Management believes are critical to the Consolidated Financial Statements and other financial disclosure. It is not intended to be a comprehensive list of all significant accounting policies that are more fully described in Note 1 of Notes to Consolidated Financial Statements.

### REVENUE RECOGNITION

The majority of the Company's revenues are recognized when products are shipped to or when services are performed for unaffiliated customers. Other revenue recognition methods the Company uses include the following: revenue on production contracts is recorded when specific contract terms are fulfilled, which is when the product or service is delivered; revenue from cost reimbursement contracts is recorded as costs are incurred, plus fees earned; revenue under long-term contracts, for which delivery is an inappropriate measure of performance, is recognized on the percentage-of-completion method based upon incurred costs compared to total estimated costs under the contract; and revenue under engineering contracts is generally recognized as milestones are attained. The Company has certain revenue arrangements with multiple elements within the Test and Communications segments. For such arrangements, the Company determines the fair value of each element under the provisions of EITF 00-21, "Revenue Arrangements with Multiple Deliverables" and SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Revenue of each element is then recognized when the products and/or services are delivered. Revenue arrangements with software components are recognized under the provisions of SOP 97-2, "Software Revenue Recognition." For software arrangements with multiple elements, the timing of revenue recognition is dependent upon vendor-specific objective evidence (VSOE) of fair value for each of the elements. The availability of VSOE affects the timing of revenue recognition, which can vary from recognizing revenue at the time of delivery of each element, to the percentage of completion method, or ratably over the performance period. Management believes that all relevant criteria and conditions are considered when recognizing revenue.

### INVENTORY

Inventories are valued at the lower of cost (first-in, first-out) or market value. Management regularly reviews inventories on hand compared to historical usage and estimated future usage and sales. Inventories under long-term contracts reflect accumulated production costs, factory overhead, initial tooling and other related costs less the portion of such costs charged to cost of sales and any unliquidated progress payments. In accordance with industry practice, costs incurred on contracts in progress include amounts relating to programs having production cycles longer than one year, and a portion thereof may not be realized within one year.

### INCOME TAXES

The Company operates in numerous taxing jurisdictions and is subject to examination by various U.S. Federal, state and foreign jurisdictions for various tax periods. Additionally, the Company has retained tax liabilities and the rights to tax refunds in connection with various divestitures of businesses in prior years. The Company's income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which the Company does business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions, as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, Management's estimates of income tax liabilities may differ from actual payments or assessments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

While the Company has support for the positions taken on its tax returns, taxing authorities are increasingly asserting alternate interpretations of laws and facts, and are challenging cross jurisdictional transactions. Cross jurisdictional transactions between the Company's subsidiaries involving transfer prices for products and services, as well as various U.S. federal, state and foreign tax matters, comprise the Company's income tax exposures. Management regularly assesses the Company's position with regard to tax exposures and records liabilities for these uncertain tax positions and related interest and penalties, if any, according to the principles of SFAS No. 5, Accounting for Contingencies. The Company has recorded an accrual that reflects Management's estimate of the likely outcome of current and future audits. A final determination of these tax audits or changes in Management's estimates may result in additional future income tax expense or benefit.

At the end of each interim reporting period, Management estimates the effective tax rate expected to apply to the full fiscal year. The estimated effective tax rate contemplates the expected jurisdiction where income is earned, as well as tax planning strategies. Current and projected growth in income in higher tax jurisdictions may result in an increasing effective tax rate over time. If the actual results differ from Management's estimates, Management may have to adjust the effective tax rate in the interim period such determination is made.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets may be reduced by a valuation allowance if it is more likely than not that some portion of all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance when Management believes it is more likely than not such assets will not be recovered, taking into consideration historical operating results, expectations of future earnings, tax planning strategies, and the expected timing of the reversals of existing temporary differences.

## GOODWILL AND OTHER LONG-LIVED ASSETS

In accordance with SFAS 142, Management annually reviews goodwill and other long-lived assets with indefinite useful lives for impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If the Company determines that the carrying value of the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Fair value is measured based on a discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the Company's current business model. The estimates of cash flows and discount rate are subject to change due to the economic environment, including such factors as interest rates, expected market returns and volatility of markets served. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates could result in an impairment charges. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144.

## PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

The measurement of liabilities related to pension plans and other post-retirement benefit plans is based on Management's assumptions related to future events including interest rates, return on pension plan assets, rate of compensation increases, and health care cost trend rates. Actual pension plan asset performance will either decrease or increase unamortized pension losses that will affect net earnings in future years. Depending upon the performance of the equity and bond markets in 2006, the Company could be required to record a charge to equity. In addition, if the discount rate was decreased by 25 basis points from 5.25% to 5.00%, the accumulated benefit obligation for the defined benefit plan would increase by approximately \$1.7 million and result in an additional after-tax charge to shareholder's equity of approximately \$1.1 million. The discount rate used in measuring the Company's pension and postretirement welfare obligations was developed by matching yields of actual high-quality corporate bonds to expected future pension plan cash flows (benefit payments). Over 500 Aa-rated, non-callable bonds with a wide range of maturities were used in the analysis. After using the bond yields to determine the present value of the plan cash flows, a single representative rate that resulted in the same present value was developed.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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.

### 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. During 2004, in conjunction with the sale of PTI S.p.A., the Company repaid its \$8.0 million Euro denominated debt and at the same time, the Company terminated its \$5.0 million interest rate swap obligation resulting in a cash payment of \$0.1 million by the Company. At September 30, 2005, the Company had no further obligations related to interest rate swaps. See further discussion in "Management Discussion and Analysis--Market Risk Analysis" regarding the Company's market risks.

### CONTROLS AND PROCEDURES

The Company carried out an evaluation under the supervision of and with the participation of Management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in the Company's internal controls or in other factors during the period covered by this report that have materially affected, or are reasonably likely to materially affect those controls and procedures.

### NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the 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) is 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."

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 \$38.5 million, which would require the Company to pay income taxes in the range of zero to \$2.9 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FORWARD-LOOKING INFORMATION

Statements regarding future events and the Company's future results that are based on current expectations, estimates, forecasts and projections about the Company's performance and the industries in which the Company operates, the Company's ability to utilize NOLs, reinvestment of foreign earnings, adequacy of future cash flows, the success of software development efforts and resulting costs, acceptance by PG&E of the final version of DCSI's TNG software, growth in the AMR market, potential customer contracts, the anticipated value of the PG&E contract, the outcome of current litigation, claims and charges, share repurchases, investments, sustained performance improvement, performance improvement initiatives, growth opportunities, new product development, the Company's ability to increase shareholder value, acquisitions, and the beliefs and assumptions of Management contained in the Letter to Our Shareholders (pages 1-2), the Report of the Chief Financial Officer (page 11), and Management's Discussion and Analysis and other statements contained herein which are not strictly historical are considered "forward-looking statements" within the meaning of the safe harbor provisions of the federal securities laws. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that such statements are only predictions, speak only as of the date of this report, and the Company undertakes no duty to update. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to: actions by the California Public Utility Commission; PG&E's Board of Directors or PG&E's management impacting PG&E's AMI projects; the timing and success of DCSI's software development efforts; the timing and content of purchase order releases under the PG&E contract; and DCSI's successful performance of the PG&E contract; the timing and execution of real estate sales; termination for convenience of customer contracts; timing and magnitude of future contract awards; weakening of economic conditions in served markets; the success of DCSI's competitors; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties; the availability of selected acquisitions; the timing, pricing and availability of shares offered for sale; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; the successful sale of the Company's Puerto Rico facility; collective bargaining and labor disputes; changes in laws and regulations including but not limited to changes in accounting standards and taxation requirements; changes in foreign or U.S. business conditions effecting the distribution of foreign earnings; costs relating to environmental matters; litigation uncertainty; and the Company's successful execution of internal operating plans.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended September 30,	2005	2004	2003
-----	-----	-----	-----
(Dollars in thousands, except per share amounts)			
Net sales	\$429,115	422,085	396,687
Costs and expenses:			
Cost of sales	282,113	282,766	271,164
Asset impairment	790	--	4,528
Selling, general and administrative expenses	84,814	78,023	73,185
Interest income, net	(1,900)	(844)	(217)
Other (income) and expenses, net	(609)	1,576	4,664
	-----	-----	-----
Total costs and expenses	365,208	361,521	353,324
	-----	-----	-----
Earnings before income tax	63,907	60,564	43,363
Income tax expense	20,363	22,748	16,625
	-----	-----	-----
Net earnings from continuing operations	43,544	37,816	26,738
Loss from discontinued operations, net of tax benefit: 2004, \$(1,295); and 2003, \$(1,821)	--	(3,737)	(6,901)
Gain (loss) on sale of discontinued operations, net of tax benefit: 2004, \$(1,186); 2003, \$(7,755)	--	1,592	(59,556)
	-----	-----	-----
Net loss from discontinued operations	--	(2,145)	(66,457)
Net earnings (loss) before accounting change	43,544	35,671	(39,719)
Cumulative effect of accounting change, net of tax of \$842	--	--	(1,419)
	-----	-----	-----
Net earnings (loss)	\$ 43,544	35,671	(41,138)
	-----	-----	-----
Earnings per share:			
Basic:			
Continuing operations	\$ 1.71	1.47	1.05
Discontinued operations	--	(0.09)	(2.62)
Cumulative effect of accounting change	--	--	(0.06)
	-----	-----	-----
Net earnings (loss)	\$ 1.71	1.38	(1.63)
	-----	-----	-----
Diluted:			
Continuing operations	\$ 1.66	1.42	1.02
Discontinued operations	--	(0.08)	(2.53)
Cumulative effect of accounting change	--	--	(0.06)
	-----	-----	-----
Net earnings (loss)	\$ 1.66	1.34	(1.57)
	-----	-----	-----
Average common shares outstanding (in thousands):			
Basic	25,511	25,803	25,350
Diluted	26,306	26,648	26,256
	=====	=====	=====

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Years ended September 30, -----	2005	2004
(Dollars in thousands)	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$104,484	72,281
Accounts receivable, less allowance for doubtful accounts of \$585 and \$626 in 2005 and 2004, respectively	68,819	77,729
Costs and estimated earnings on long-term contracts, less progress billings of \$7,033 and \$2,210 in 2005 and 2004, respectively	4,392	2,476
Inventories	48,645	44,287
Current portion of deferred tax assets	30,219	27,810
Other current assets	8,394	8,947
	-----	-----
Total current assets	264,953	233,530
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	5,493	5,309
Buildings and leasehold improvements	42,918	42,026
Machinery and equipment	76,741	75,455
Construction in progress	1,108	1,022
	-----	-----
	126,260	123,812
Less accumulated depreciation and amortization	59,070	54,709
	-----	-----
Net property, plant and equipment	67,190	69,103
Goodwill	68,880	68,949
Deferred tax assets	--	10,055
Other assets	27,697	20,803
	-----	-----
	\$428,720	402,440
	=====	=====

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Years ended September 30, -----	2005	2004
(Dollars in thousands)	-----	-----
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term borrowings and current maturities of long-term debt	\$ --	151
Accounts payable	29,299	32,455
Advance payments on long-term contracts, less costs incurred of \$10,949 and \$8,017 in 2005 and 2004, respectively	6,773	4,305
Accrued salaries	12,024	11,896
Accrued other expenses	14,661	19,515
	-----	-----
Total current liabilities	62,757	68,322
	-----	-----
Deferred income	3,134	2,738
Pension obligations	17,481	13,899
Other liabilities	14,324	9,497
Long-term debt	--	368
	-----	-----
Total liabilities	97,696	94,824
	-----	-----
<b>SHAREHOLDERS' EQUITY:</b>		
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 28,738,958 and 28,297,804 shares in 2005 and 2004, respectively	287	142
Additional paid-in capital	228,317	221,711
Retained earnings	159,363	115,963
Accumulated other comprehensive loss	(5,566)	(3,698)
	-----	-----
382,401	334,118	
Less treasury stock, at cost (3,175,626 and 2,514,704 common shares in 2005 and 2004, respectively)	(51,377)	(26,502)
	-----	-----
Total shareholders' equity	331,024	307,616
	-----	-----
	\$428,720	402,440
	=====	=====

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended September 30, ----- (In thousands)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance, September 30, 2002	13,601	\$136	209,402	121,430	(9,473)	(15,184)	306,311
Comprehensive loss:							
Net loss	--	--	--	(41,138)	--	--	(41,138)
Translation adjustments	--	--	--	--	3,880	--	3,880
Minimum pension liability, net of tax of \$641	--	--	--	--	(1,190)	--	(1,190)
Interest rate swap adjustment net of tax benefit of \$(970)	--	--	--	--	1,801	--	1,801
Comprehensive loss							(36,647)
Stock options and stock compensation plans, net of tax benefit of \$(2,659)	332	3	7,104	--	--	56	7,163
Purchases into treasury	--	--	--	--	--	(1,438)	(1,438)
Balance, September 30, 2003	13,933	139	216,506	80,292	(4,982)	(16,566)	275,389
Comprehensive income:							
Net earnings	--	--	--	35,671	--	--	35,671
Translation adjustments	--	--	--	--	2,703	--	2,703
Minimum pension liability, net of tax of \$815	--	--	--	--	(1,514)	--	(1,514)
Interest rate swap adjustment net of tax benefit of \$(51)	--	--	--	--	95	--	95
Comprehensive income							36,955
Stock options and stock compensation plans, net of tax benefit of \$(1,939)	216	3	5,205	--	--	45	5,253
Purchases into treasury	--	--	--	--	--	(9,981)	(9,981)
Balance, September 30, 2004	14,149	142	221,711	115,963	(3,698)	(26,502)	307,616
Comprehensive income:							
Net earnings	--	--	--	43,544	--	--	43,544
Translation adjustments	--	--	--	--	680	--	680
Minimum pension liability, net of tax of \$1,372	--	--	--	--	(2,548)	--	(2,548)
Comprehensive income							41,676
Stock options and stock compensation plans, net of tax benefit of \$(3,032)	222	1	6,606	--	--	53	6,660
Purchases into treasury	--	--	--	--	--	(24,928)	(24,928)
100 percent stock dividend	14,368	144	--	(144)	--	--	--
Balance, September 30, 2005	28,739	\$287	228,317	159,363	(5,566)	(51,377)	331,024

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended September 30,	2005	2004	2003
-----	-----	-----	-----
(In thousands)			
Cash flows from operating activities:			
Net earnings (loss)	\$ 43,544	35,671	(41,138)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Loss from discontinued operations, net of tax	--	3,737	6,901
(Gain) loss on sale of discontinued operations, net of tax	--	(1,592)	59,556
Asset impairment	790	--	4,528
Depreciation and amortization	12,184	11,888	13,451
Changes in operating working capital	(4,634)	(2,349)	(15,669)
Effect of deferred taxes on tax provision	15,221	14,056	10,137
Proceeds from settlement of patent litigation	--	--	7,300
Gain from settlement of patent litigation	--	--	(2,056)
Other	1,451	2,351	3,932
	-----	-----	-----
Net cash provided by operating activities - continuing operations	68,556	63,762	46,942
Net cash used by discontinued operations	--	(2,735)	(7,907)
	-----	-----	-----
Net cash provided by operating activities	68,556	61,027	39,035
	-----	-----	-----
Cash flows from investing activities:			
Acquisition of business - continuing operations	--	(294)	(4,000)
Acquisition of businesses and technology rights-discontinued operations	--	--	(1,364)
Proceeds from divestiture of businesses	--	23,275	6,000
Proceeds from note receivable	--	2,120	--
Capital expenditures - continuing operations	(8,848)	(10,823)	(10,599)
Capital expenditures - discontinued operations	--	(1,390)	(3,528)
Additions to capitalized software	(8,342)	(8,299)	(1,019)
	-----	-----	-----
Net cash provided (used) by investing activities	(17,190)	4,589	(14,510)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from long-term debt	--	378	--
Principal payments on long-term debt - continuing operations	(519)	(516)	(31,636)
Principal payments on long-term debt - discontinued operations	--	(9,024)	(621)
Net increase (decrease) in short-term borrowings	--	(10,000)	10,000
Purchases of common stock into treasury	(24,928)	(9,981)	(1,438)
Other, including exercise of stock options	6,284	4,523	5,525
	-----	-----	-----
Net cash used by financing activities	(19,163)	(24,620)	(18,170)
	-----	-----	-----
Net increase in cash and cash equivalents	32,203	40,996	6,355
Cash and cash equivalents at beginning of year	72,281	31,285	24,930
	-----	-----	-----
Cash and cash equivalents at end of year	\$104,484	72,281	31,285
	=====	=====	=====
Changes in operating working capital:			
Accounts receivable, net	\$ 8,910	(8,350)	(12,149)
Costs and estimated earnings on long-term contracts, net	(1,916)	2,187	(1,712)
Inventories	(4,358)	4,145	(3,883)
Other current assets and current portion of deferred tax assets	(1,856)	(2,405)	(2,692)
Accounts payable	(3,156)	(2,485)	839
Advance payments on long-term contracts, net	2,468	3,161	(1,562)
Accrued expenses	(4,726)	1,398	5,490
	-----	-----	-----
	\$ (4,634)	(2,349)	(15,669)
	-----	-----	-----
Supplemental cash flow information:			
Interest paid	\$ 33	402	805
Income taxes paid (including state, foreign & AMT)	6,269	4,974	6,208
	=====	=====	=====

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of ESCO Technologies Inc. (ESCO) and its wholly owned subsidiaries (the Company). All significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the 2005 presentation.

(B) BASIS OF PRESENTATION

Fair values of the Company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. The estimated fair value of each class of financial instruments approximated the related carrying value at September 30, 2005 and 2004.

(C) NATURE OF OPERATIONS

The Company has three industry operating units: Filtration/Fluid Flow, Communications and Test. The Filtration/Fluid Flow unit develops, manufactures and markets a broad range of filtration products used in the purification and processing of liquids and gases. The Communications unit provides a well-proven power line based communications system to the electric utility industry. The Two-Way Automatic Communications System, known as the TWACS(R) system, is currently used for automatic meter reading (AMR) and related advanced metering functions, as well as having load management capabilities. The Test unit is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy.

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 gain of \$1.6 million related to the sale of the MicroSep businesses is reflected in the Company's fiscal 2004 results in discontinued operations. The MicroSep businesses are accounted for as a discontinued operation. See Note 2, "Discontinued Operations".

Effective April 11, 2003, the Company completed the sale of Rantec Power Systems, Inc. (Rantec) to an entity owned by a group of investors primarily comprised of the subsidiary's management. Rantec is accounted for as a discontinued operation. See Note 2, "Discontinued Operations".

(D) USE of ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions, including estimates of anticipated contract costs and revenues utilized in the earnings process, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(E) REVENUE RECOGNITION

The majority of the Company's revenues are recognized when products are shipped to or when services are performed for unaffiliated customers. Other revenue recognition methods the Company uses include the following: revenue on production contracts is recorded when specific contract terms are fulfilled, which is when the product or service is delivered; revenue from cost reimbursement contracts is recorded as costs are incurred, plus fees earned; revenue under long-term contracts, for which delivery is an inappropriate measure of performance, is recognized on the percentage-of-completion method based upon incurred costs compared to total estimated costs under the contract; and revenue under engineering contracts is generally recognized as milestones are attained. The Company has certain revenue arrangements with multiple elements within the Test and Communications segments. For such arrangements, the Company determines the fair value of each element under the provisions of EITF 00-21, "Revenue Arrangements with Multiple Deliverables" and SOP 81 -1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Revenue of each element is then recognized when the products and/or services are delivered. Revenue



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

arrangements with software components are recognized under the provisions of SOP 97-2, "Software Revenue Recognition." For software arrangements with multiple elements, the timing of revenue recognition is dependent upon vendor-specific objective evidence (VSOE) of fair value for each of the elements. The availability of VSOE affects the timing of revenue recognition, which can vary from recognizing revenue at the time of delivery of each element, to the percentage of completion method, or ratably over the performance period. Management believes that all relevant criteria and conditions are considered when recognizing revenue.

(F) CASH AND CASH EQUIVALENTS

Cash equivalents include temporary investments that are readily convertible into cash, such as Euro dollars, commercial paper and treasury bills with original maturities of three months or less.

(G) ACCOUNTS RECEIVABLE

Accounts receivable have been reduced by an allowance for amounts that the Company estimates are uncollectible in the future. This estimated allowance is based on Management's evaluation of the financial condition of the customer and historical write-off experience.

(H) COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS

Costs and estimated earnings on long-term contracts represent unbilled revenues, including accrued profits, accounted for under the percentage-of-completion method, net of progress billings.

(I) INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market value. Inventories under long-term contracts reflect accumulated production costs, factory overhead, initial tooling and other related costs less the portion of such costs charged to cost of sales and any unliquidated progress payments. In accordance with industry practice, costs incurred on contracts in progress include amounts relating to programs having production cycles longer than one year, and a portion thereof will not be realized within one year.

(J) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed primarily on a straight-line basis over the estimated useful lives of the assets: buildings, 10-40 years; machinery and equipment, 5-10 years; and office furniture and equipment, 5-10 years. Leasehold improvements are amortized over the remaining term of the applicable lease or their estimated useful lives, whichever is shorter.

(K) GOODWILL AND OTHER LONG-LIVED ASSETS

Goodwill represents the excess of purchase costs over the fair value of net identifiable assets acquired in business acquisitions. The Company accounts for goodwill as required by Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets." Management annually reviews goodwill and other long-lived assets with indefinite useful lives for impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If the Company determines that the carrying value of the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Fair value is measured based on a discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the Company's current business model. Other intangible assets represent costs allocated to identifiable intangible assets, principally capitalized software, patents and technology rights. See Note 5 below regarding goodwill and other intangible assets activity.

(L) IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to dispose.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(M) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets may be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance when Management believes it is more likely than not such assets will not be recovered, taking into consideration historical operating results, expectations of future earnings, tax planning strategies, and the expected timing of the reversals of existing temporary differences.

(N) RESEARCH AND DEVELOPMENT COSTS

Company-sponsored research and development costs include research and development and bid and proposal efforts related to the Company's products and services. Company-sponsored product development costs are charged to expense when incurred. Customer-sponsored research and development costs incurred pursuant to contracts are accounted for similar to other program costs. Customer-sponsored research and development costs refer to certain situations whereby customers provide funding to support specific contractually defined research and development costs. As the Company incurs costs under these specific funding contracts, the costs are "inventoried" until billed to the customer for reimbursement, consistent with other program costs. Once billed/invoiced, these costs are transferred to accounts receivable until the cash is received from the customer. All research and development costs incurred in excess of the contractual funding amount, or costs incurred outside the scope of the contractual research and development project, are expensed as incurred.

(O) FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign operations are translated into U.S. dollars in accordance with SFAS 52 "Foreign Currency Translation" (SFAS 52). The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income.

(P) EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options and vesting of performance-accelerated restricted shares using the treasury stock method. On August 5, 2005, the Company's Board of Directors approved a 2-for-1 stock split which was effected as a 100 percent stock dividend and was paid on September 23, 2005 to shareholders of record as of September 9, 2005. The prior year amounts have been adjusted to be consistent with the current year presentation.

The number of shares used in the calculation of earnings per share for each year presented is as follows:

	2005 -----	2004 -----	2003 -----
(In thousands)			
Weighted Average Shares Outstanding--Basic	25,511	25,803	25,350
Dilutive Options and performance-accelerated restricted stock	795	845	906
Adjusted Shares--Diluted	26,306 =====	26,648 =====	26,256 =====

Options to purchase 6,000 shares at prices ranging from \$49.74 - \$50.26 were outstanding during the year ended September 30, 2005, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. Options to purchase 74,500 shares at prices ranging from \$24.76 - \$32.33 were outstanding during the year ended September 30, 2004, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. There were no options outstanding



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

during the year ended September 30, 2003 where the options' exercise price was greater than the average market price of the common shares. These options expire in various periods through 2013. Approximately 36,000, 14,000 and 100,000 restricted shares were outstanding but unearned at September 30, 2005, 2004 and 2003, respectively, and, therefore, were not included in the respective years' computations of diluted EPS.

(Q) STOCK-BASED COMPENSATION

The Company measures its compensation cost of equity instruments issued under employee compensation plans under the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations. In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of SFAS 123," to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Under APB 25, no compensation cost was recognized for the Company's stock option plans. Had compensation cost for the Company's stock option plans and performance-accelerated restricted share plans been determined based on the fair value at the grant date for awards outstanding during 2005, 2004 and 2003 consistent with the provisions of this Statement, the Company's net earnings (loss) and net earnings (loss) per share would have been as shown in the table below:

Pro forma (Unaudited)	2005	2004	2003
-----	-----	-----	-----
(Dollars in thousands, except per share amounts)			
Net earnings (loss), as reported	\$43,544	35,671	(41,138)
Add: stock-based employee compensation expense included in reported net earnings (loss), net of tax	1,165	866	1,111
Less: total stock-based employee compensation expense determined under fair value based methods, net of tax	(3,476)	(1,910)	(3,053)
	-----	-----	-----
Pro forma net earnings (loss)	\$41,233	34,627	(43,080)
	-----	-----	-----
Net earnings (loss) per share:			
Basic--as reported	\$ 1.71	1.38	(1.62)
Basic--pro forma	1.62	1.34	(1.70)
Diluted--as reported	1.66	1.34	(1.57)
Diluted--pro forma	1.57	1.30	(1.64)
	=====	=====	=====

(R) COMPREHENSIVE INCOME (LOSS)

SFAS 130, "Reporting Comprehensive Income" requires the Company to report separately the translation adjustments of SFAS 52 defined above, changes to the minimum pension liability, and changes in fair value of the Company's interest rate swaps designated as a cash flow hedge, as components of comprehensive income or loss. Management has chosen to disclose the requirements of this Statement within the Consolidated Statements of Shareholders' Equity.

Accumulated other comprehensive loss as shown on the consolidated balance sheet of \$(5.6) million and \$(3.7) million at September 30, 2005 and 2004, respectively, consisted of \$3.0 million and \$2.4 million related to currency translation adjustments; \$(8.6) million and \$(6.1) million related to the minimum pension liability, respectively.

(S) DEFERRED INCOME

Deferred income represents the long-term portion of unearned income related to two patent infringement agreements. The amount is being amortized into income on a straight-line basis over the remaining patent life through 2011. The current portion of approximately \$0.5 million is classified in accrued expenses on the Consolidated Balance Sheet.

## (T) NEW ACCOUNTING STANDARDS

In December 2004, the 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) is 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."

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 \$38.5 million, which would require the Company to pay income taxes in the range of zero to \$2.9 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.

## 2. DISCONTINUED OPERATIONS

## 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 gain of \$1.6 million related to the sale of the MicroSep businesses is reflected in the Company's 2004 results in discontinued operations.

The MicroSep businesses are accounted for as a discontinued operation in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144) and, accordingly, amounts in the financial statements and related notes for all periods shown, reflect discontinued operations presentation. The net sales from the MicroSep businesses were \$29.4 million and \$43.8 million for the years ended September 30, 2004 and 2003, respectively. The pre-tax loss from operations from the MicroSep businesses were \$(5.0) million and \$(8.9) million for the years ended September 30, 2004 and 2003, respectively.)

## RANTEC

Effective April 11, 2003, the Company completed the sale of Rantec Power Systems Inc. (Rantec) to an entity owned by a group of investors primarily comprised of the subsidiary's management. The Company received \$6.0 million from the buyer at closing. A pretax gain of \$1.6 million related to the sale is reflected in the Company's 2003 results in discontinued operations. Rantec is accounted for as a discontinued operation in accordance with SFAS 144 and, accordingly, amounts in the financial statements and related notes for all periods shown, reflect discontinued operations presentation. Rantec's net sales and pre-tax earnings from operations were \$5.7 million and \$0.1 million, respectively, for the year ended September 30, 2003.

## 3. ACQUISITIONS

On July 1, 2004, the Company acquired certain intellectual property and physical assets of CIC Global LLC, of Brentwood, Tennessee (CIC) for approximately \$0.3 million in cash. CIC designs, manufactures and distributes prepayment systems for the electric utility market. The assets, liabilities, and results of operations since the date of acquisition are included within the Communications segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On December 31, 2002, the Company acquired the assets and certain liabilities of Austin Acoustic Systems, Inc. (Austin Acoustics) for \$4 million in cash. Austin Acoustics, headquartered in Austin, TX, is a leading supplier of noise control chambers for the test, medical and broadcast/music industries. The assets, liabilities and results of operations since the date of acquisition are included within the Test segment.

All of the Company's acquisitions have been accounted for using the purchase method of accounting and accordingly, the respective purchase prices were allocated to the assets (including intangible assets) acquired and liabilities assumed based on estimated fair values at the date of acquisition. The financial results from these acquisitions have been included in the Company's financial statements from the date of acquisition.

4. ASSET IMPAIRMENT

In June 2005, the Company abandoned its plans to commercialize certain sensor products at PTI Technologies Inc. which resulted in an asset impairment charge of \$0.8 million to write-off certain patents and a related licensing agreement. The Company ended its development efforts on this program after it determined that the market was not developing as quickly as anticipated and the expected costs and timeframe to fully commercialize the products were not acceptable.

The \$4.5 million asset impairment charge in 2003 related to the closure of the Filtration operation in Puerto Rico and the consolidation of the Test business manufacturing facility in the U.K. The Puerto Rico charge (\$4.3 million) resulted from the write-down of the Puerto Rico building and equipment from their respective carrying value to their estimated fair market value. The U.K. Test charge (\$0.2 million) resulted from the write-off of abandoned leasehold improvements.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Included on the Company's Consolidated Balance Sheet at September 30, 2005 and 2004 are the following intangible assets gross carrying amounts and accumulated amortization:

	2005	2004
	-----	----
(Dollars in millions)		
Goodwill:		
Gross carrying amount	\$77.8	77.8
Less: accumulated amortization	8.9	8.9
	-----	----
Net	\$68.9	68.9
	-----	----
Intangible assets with determinable lives: (included in Other Assets)		
Patents		
Gross carrying amount	\$17.5	17.4
Less: accumulated amortization	13.1	12.2
	-----	----
Net	\$ 4.4	5.2
	-----	----
Capitalized software		
Gross carrying amount	\$23.9	15.6
Less: accumulated amortization	6.8	6.0
	-----	----
Net	\$17.1	9.6
	-----	----
Other		
Gross carrying amount	\$ 0.4	0.8
Less: accumulated amortization	0.3	0.3
	-----	----
Net	\$ 0.1	0.5
	=====	=====

The Company performed its annual evaluation of goodwill for impairment during the fourth quarter of fiscal 2005 and concluded no impairment existed at September 30, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The changes in the carrying amount of goodwill attributable to each business segment for the years ended September 30, 2005 and 2004 are as follows:

	Filtration -----	Test ----
(Dollars in millions)		
Balance as of September 30, 2003	\$39.6	29.1
Foreign currency translation	0.2	--
	-----	----
Balance as of September 30, 2004 and 2005	\$39.8	29.1
	=====	=====

Amortization expense related to intangible assets with determinable lives was \$2.0 million, \$2.4 million and \$2.4 million in 2005, 2004 and 2003, respectively. Patents are amortized over the life of the patents, generally 17 years. Capitalized software is amortized over the estimated useful life of the software, generally 3-7 years. Estimated intangible assets amortization for fiscal year 2006 is approximately \$4 million. Estimated intangible asset amortization for fiscal years 2007 through 2010 is estimated at approximately \$8 million per year. The increase is related to the additional costs associated with the TNG software.

6. ACCOUNTS RECEIVABLE

Accounts receivable, net of the allowance for doubtful accounts, consist of the following at September 30, 2005 and 2004:

	2005 -----	2004 -----
(Dollars in thousands)		
Commercial	\$66,871	72,711
U.S. Government and prime contractors	1,948	5,018
	-----	-----
Total	\$68,819	77,729
	=====	=====

7. INVENTORIES

Inventories consist of the following at September 30, 2005 and 2004:

	2005 -----	2004 -----
(Dollars in thousands)		
Finished goods	\$14,361	11,444
Work in process - including long-term contracts	12,512	13,759
Raw materials	21,772	19,084
	-----	-----
Total	\$48,645	44,287
	=====	=====

8. PROPERTY, PLANT AND EQUIPMENT

Depreciation expense from continuing operations of property, plant and equipment for the years ended September 30, 2005, 2004 and 2003 was \$10.1 million, \$9.5 million and \$11.1 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The closure and relocation of the Filtertek Puerto Rico facility were completed in March 2004. The Puerto Rico facility is included in other current assets with a carrying value of \$3.6 million at September 30, 2005. The facility is being marketed for sale.

The Company leases certain real property, equipment and machinery under noncancelable operating leases. Rental expense under these operating leases for the years ended September 30, 2005, 2004 and 2003 was \$6.3 million, \$5.8 million and \$6.1 million, respectively. Future aggregate minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2005 are:

Years ending September 30:  
-----  
(Dollars in thousands)

2006	\$ 5,366
2007	4,844
2008	3,340
2009	2,030
2010 and thereafter	5,043
	-----
Total	\$20,623
	=====

9. INCOME TAX EXPENSE

Total income tax expense for the years ended September 30, 2005, 2004 and 2003 was allocated as follows:

	2005	2004	2003
	-----	-----	-----
(Dollars in thousands)			
Income tax expense from continuing operations	\$20,363	22,748	16,625
Discontinued operations (including establishment of valuation allowance in 2003)	--	(2,481)	(9,576)
Tax impact of cumulative effect of accounting change	--	--	(842)
	-----	-----	-----
Total income tax expense	\$20,363	20,267	6,207
	=====	=====	=====

For the year ended September 30, 2005, pretax earnings related to United States (U.S.) and foreign tax jurisdictions were \$52.5 million and \$11.4 million, respectively. For the year ended September 30, 2004, pretax earnings related to U.S. and foreign tax jurisdictions were \$46.3 million and \$9.6 million, respectively. For the year ended September 30, 2003, pretax loss related to U.S. and foreign tax jurisdictions was \$22.2 million and \$12.7 million, respectively.

The principal components of income tax expense from continuing operations for the years ended September 30, 2005, 2004 and 2003 consist of:

	2005	2004	2003
	-----	-----	-----
(Dollars in thousands)			
Federal			
Current (including Alternative Minimum Tax)	\$ 874	14,153	3,407
Deferred	15,313	3,641	9,869
State and local:			
Current	2,414	3,259	1,982
Deferred	(21)	76	162
Foreign:			
Current	1,854	1,752	1,099
Deferred	(71)	(133)	106
	-----	-----	-----
Total	\$20,363	22,748	16,625
	=====	=====	=====



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The actual income tax expense from continuing operations for the years ended September 30, 2005, 2004 and 2003 differs from the expected tax expense for those years (computed by applying the U.S. Federal corporate statutory rate) as follows:

	2005	2004	2003
	----	----	----
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local, net of Federal benefits	2.4	3.5	3.1
Foreign - Puerto Rico	(4.6)	(3.1)	(0.8)
Foreign - Other	(1.6)	--	--
Other, net	0.7	2.2	1.1
	----	----	----
Effective income tax rate	31.9%	37.6%	38.4%
	=====	=====	=====

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 2005, and 2004 are presented below.

	2005	2004
	-----	-----
(Dollars in thousands)		
Deferred tax assets:		
Inventories, long-term contract accounting, contract cost reserves and others	\$ 3,159	3,851
Pension and other postretirement benefits	6,981	5,576
Net operating loss carryforward	17,410	28,222
Capital loss carryforward	7,381	7,378
Other compensation-related costs and other cost accruals	11,687	12,871
	-----	-----
Total deferred tax assets	46,618	57,898
Deferred tax liabilities:		
Plant and equipment, depreciation methods, acquisition asset allocations, and other	(12,926)	(10,854)
	-----	-----
Net deferred tax asset before valuation allowance	33,692	47,044
Less valuation allowance	(9,096)	(9,179)
	-----	-----
Net deferred tax assets	\$ 24,596	37,865
	=====	=====

Net deferred tax assets are classified in the Consolidated Balance Sheets as set forth below.

	2005	2004
	-----	-----
(Dollars in thousands)		
Current portion of deferred tax assets	\$30,219	27,810
Deferred tax assets (non-current)	--	10,055
Deferred tax liabilities (non-current) -		
Included in Other Liabilities	(5,623)	--
	-----	-----
Net deferred tax assets	\$24,596	37,865
	=====	=====

Management believes that, based on the Company's historical pretax income together with the projection of future taxable income, and after consideration of the valuation allowance, it is more likely than not that the Company will realize the benefits of the net deferred tax assets existing at September 30, 2005. In order to realize this net deferred tax asset, the Company will need to generate future taxable income of approximately \$70 million, of which \$45 million is required to be realized prior to the expiration of the NOL carryforward in the United States, of which \$5 million will expire in 2018; and \$40 million will expire in 2019. The NOL carryforward may be used to reduce future Federal income tax cash payments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has established a valuation allowance of \$7.4 million against the capital loss carryforward generated in 2004, as such loss carryforward may not be realized in future periods. In addition, the Company has established a valuation allowance against certain NOL carryforwards in foreign jurisdictions which may not be realized in future periods. The valuation allowance established against the foreign NOL carryforwards was \$1.7 million and \$1.8 million at September 30, 2005 and 2004, respectively.

On October 22, 2004, the President of the United States signed into law the American Jobs Creation Act of 2004 (the "2004 Jobs Act"). The 2004 Jobs Act repeals the extraterritorial income exclusion and provides for (i) a new deduction for domestic manufacturing and production income, (ii) international tax reforms, (iii) a temporary incentive for U.S. multinational companies to reinvest foreign earnings in the U.S., and (iv) numerous other business tax relief provisions. The foreign earnings repatriation provision provides an 85% dividends received deduction for certain dividends received from controlled foreign corporations. In addition, 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 (2004 Jobs Act)". The Company is currently evaluating the merits of repatriating funds under the 2004 Jobs Act. The range of reasonably possible amounts of unremitted earnings that are being considered for repatriation is between zero and \$38.5 million, which would require the Company to pay income taxes in the range of zero to \$2.9 million. Federal income taxes on the repatriated amounts would be based on the 5.25% effective statutory rate as provided in the 2004 Jobs Act, plus applicable withholding taxes. Federal income taxes and applicable withholding taxes would be required to be recorded for any funds repatriated under the 2004 Jobs Act. The Company expects to complete its evaluation of the repatriation provision of the 2004 Jobs Act by September 30, 2006.

No deferred taxes have been provided on the accumulated unremitted earnings of the Company's foreign subsidiaries as of September 30, 2005. The Company's intention is to reinvest these earnings indefinitely. In the event these foreign entities' earnings were distributed, it is estimated that U.S. taxes, net of available foreign tax credits, of approximately \$13.9 million would be due, which would correspondingly reduce the Company's net earnings and net operating loss carryforward, without consideration of the potential application of the 2004 Jobs Act described above.

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. These audits can involve complex issues which may require an extended period of time to resolve. The Company regularly reviews its potential tax liabilities for tax years subject to audit. Changes in the Company's potential tax liability occurred during the year ended September 30, 2005, and may occur in the future as the Company's assessment changes based on examinations in various jurisdictions and/or changes in tax laws, regulations and case law, the Company's estimate of income tax liabilities may differ from actual payments or assessments.

10. DEBT

Long-term debt consists of the following at September 30, 2005 and 2004:

	2005	2004
	----	----
(Dollars in thousands)		
Long-term borrowings under the revolving credit facility	\$--	--
Other debt	--	519
Less current maturities of long-term debt	--	(151)
	---	----
Long-term debt--continuing operations	\$--	368
	===	====

Effective October 6, 2004, the Company entered into a \$100 million revolving credit facility with a \$50 million increase option that has a final maturity and expiration of October 6, 2009. The credit facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of six banks, led by Wells Fargo Bank as agent.

At September 30, 2005, the Company had approximately \$98.6 million available to borrow under the credit facility in addition to its \$104.5 million cash on hand. At September 30, 2005, the Company had no borrowings, and outstanding letters of credit of \$2.5 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The credit facility requires, as determined by certain financial ratios, a commitment fee ranging from 17.5-27.5 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the London Interbank Offered Rate (LIBOR) or based on the prime rate, at the Company's election. The facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility include limitations on leverage, minimum consolidated EBITDA and minimum net worth.

There were no borrowings under the credit facility at September 30, 2005 and 2004, respectively. During 2005 and 2004, the maximum aggregate short-term borrowings at any month-end were zero and \$12.0 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were zero and \$2.7 million, respectively; and the weighted average interest rates were not applicable in 2005, 1.87% in 2004 and 1.78% in 2003. The letters of credit issued and outstanding under the credit facility totaled \$1.4 million and \$3.2 million at September 30, 2005, and 2004, respectively.

11. CAPITAL STOCK

The 28,738,958 and 28,297,804 common shares as presented in the accompanying Consolidated Balance Sheets at September 30, 2005 and 2004 represent the actual number of shares issued at the respective dates. The Company held 3,175,626 and 2,514,704 common shares in treasury at September 30, 2005 and 2004, respectively. The above numbers reflect the 2-for-1 stock split effected on September 23, 2005.

The Company has various stock option plans that permit the Company to grant key Management employees (1) options to purchase shares of the Company's common stock or (2) stock appreciation rights with respect to all or any part of the number of shares covered by the options. All outstanding options were granted at prices equal to fair market value at the date of grant.

Information regarding stock options awarded under the option plans is as follows (note that prior year information was adjusted to reflect the 2-for-1 stock split during 2005):

	FY2005		FY2004		FY2003	
	ESTIMATED WEIGHTED SHARES	AVG. PRICE	Shares	Estimated Weighted Avg. Price	Shares	Estimated Weighted Avg. Price
October 1	1,356,094	\$13.63	1,529,192	\$10.89	2,079,076	\$ 9.79
Granted	376,200	\$35.55	291,600	\$24.15	89,000	\$17.38
Exercised	(388,340)	\$10.94	(385,166)	\$10.13	(601,874)	\$ 7.97
Cancelled	(19,406)	\$24.96	(79,532)	\$16.26	(37,010)	\$13.16
September 30, At September 30,	1,324,548	\$20.48	1,356,094	\$13.63	1,529,192	\$10.89
Reserved for future grant	1,428,032		1,665,238		462,396	
Exercisable	755,612	\$12.29	818,824	\$ 9.71	862,450	\$ 8.60

The weighted-average fair value of stock options granted in 2005, 2004, and 2003 was \$11.28, \$6.84, and \$7.01, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary information regarding stock options outstanding at September 30, 2005 is presented below:

Options Outstanding			
Range of Exercise Prices	Number Outstanding at September 30, 2005	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price
\$3.09 - \$6.19	147,250	3.4 years	\$ 5.38
\$7.09 - \$9.61	133,846	4.3 years	\$ 8.76
\$10.72 - \$13.64	166,070	6.0 years	\$12.52
\$14.52 - \$18.17	259,444	7.0 years	\$15.10
\$22.68 - \$32.32	246,738	3.3 years	\$24.18
\$35.18 - \$50.26	371,200	4.0 years	\$35.56
	-----	-----	-----
	1,324,548	4.7 years	\$20.48
	=====	=====	=====

Exercisable Options Outstanding		
Range of Exercise Price	Number Exercisable at September 30, 2005	Weighted Average Exercise Price
\$3.09 - \$6.19	147,250	\$ 5.38
\$7.09 - \$9.61	133,846	\$ 8.76
\$10.72 - \$13.64	166,070	\$12.52
\$14.52 - \$22.77	251,419	\$15.27
\$24.20 - \$32.32	57,027	\$24.58
	-----	-----
	755,612	\$12.29
	=====	=====

The options granted prior to September 30, 2003 have a ten-year contractual life from date of issuance, expiring in various periods through 2013. Beginning in fiscal 2004, the options granted have a five-year contractual life from date of issuance.

The 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 2005, 2004 and 2003, respectively: expected dividend yield of 0% in all periods; expected volatility of 23.5%, 21.4% and 31.5%, risk-free interest rate of 3.9%, 4.2% and 3.9%, and expected life based on historical exercise periods of 3.58 years, 4.25 years and 4.13 years.

In August 2004, the Company's Board of Directors approved the extension of the previously authorized (February 2001) open market repurchase program originally authorizing up to 2.6 million shares of its common stock, which is subject to market conditions and other factors and covers the period through September 30, 2006. The Company repurchased 670,072, 312,400 and 85,762 shares in 2005, 2004, and 2003, respectively, and has 1,152,966 shares remaining under this program at September 30, 2005. These amounts are shown on an adjusted basis to account for the 2-for-1 stock split which occurred on September 23, 2005.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2004, the Board of Directors authorized and the shareholders approved, the 2004 Incentive Compensation Plan, which states, in part, that on February 5, 2004, there shall be added to the authorized shares allocated 2,000,000 shares for the grant of stock options, stock appreciation rights, performance-accelerated restricted stock, or other full value awards. Of these, shares up to 600,000 may be utilized for performance-accelerated restricted stock or other full value awards. In addition, the Company may, in its discretion, use shares held in the Treasury in lieu of authorized but unissued shares.

During 2001, the Board of Directors authorized and the shareholders approved, the 2001 Stock Incentive Plan, which states, in part, that on February 8, 2001, and on each October 1 thereafter, through October 1, 2004, there shall be added to the authorized shares allocated the lesser of (i) 1 % of the total outstanding shares as of each such date, or (ii) 125,000 shares which may be used for the grant of stock options, stock appreciation rights, performance share awards or restricted stock. In addition, the Company may, in its discretion, use shares held in the Treasury in lieu of authorized but unissued shares.

At September 30, 2005, the maximum number of performance-accelerated restricted shares available for issue under the 2004 Incentive Compensation Plan and the 2001 Stock Incentive Plan was 600,000 and 361,162 shares, respectively. During fiscal 2005, 67,000 shares have been awarded and 118,736 shares have been earned cumulatively. Compensation expense related to these awards was \$1.9 million, \$1.4 million and \$1.9 million in 2005, 2004 and 2003, respectively. These shares vest over five years with accelerated vesting over three years if certain performance targets are achieved. The 2005, 2004 and 2003 performance-accelerated restricted share award grants were valued at the stock price on the date of grant.

See note 1 (q) of notes to consolidated financial statements for a discussion of SFAS 148 and related disclosures.

### 12. RETIREMENT AND OTHER BENEFIT PLANS

Substantially all employees are covered by defined contribution pension plans maintained by the Company for the benefit of its employees. Effective December 31, 2003, the Company's defined benefit plan was frozen and no additional benefits will be accrued after that date. As a result, the accumulated benefit obligation and projected benefit obligation are equal.

Benefits are provided to employees under defined benefit pay-related and flat-dollar plans, which are noncontributory. The annual contributions to retirement plans equal or exceed the minimum funding requirements of the Employee Retirement Income Security Act or applicable local regulations. In addition to providing retirement income benefits, the Company provides unfunded postretirement health and life insurance benefits to certain retirees. To qualify, an employee must retire at age 55 or later and the employee's age plus service must equal or exceed 75. Retiree contributions are defined as a percentage of medical premiums. Consequently, retiree contributions increase with increases in the medical premiums. The life insurance plans are noncontributory and provide coverage of a flat dollar amount for qualifying retired employees.

The Company uses a measurement date of September 30 for its pension and other postretirement benefit plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables provide a reconciliation of the changes in both the pension and other postretirement plans benefit obligations and fair value of assets over the two-year period ended September 30, 2005, and a statement of the funded status as of September 30, 2005 and 2004:

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
(Dollars in millions)				
RECONCILIATION OF BENEFIT OBLIGATION				
Net benefit obligation at beginning of year	\$45.0	41.0	\$0.7	0.5
Service cost	--	0.6	--	--
Interest cost	2.6	2.5	--	--
Actuarial (gain) loss	4.2	2.4	--	0.2
Curtailment	--	--	--	--
Settlements	--	--	--	--
Plan participant contributions	--	--	--	0.1
Gross benefits paid	(1.6)	(1.5)	--	(0.1)
	-----	-----	-----	-----
Net benefit obligation at end of year	\$50.2	45.0	\$0.7	0.7
	=====	=====	=====	=====
RECONCILIATION OF FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets at beginning of year	\$31.1	28.7	\$ --	--
Actual return on plan assets	3.0	2.8	--	--
Employer contributions	0.2	1.1	--	--
Plan participant contributions	--	--	--	0.1
Gross benefits paid	(1.6)	(1.5)	--	(0.1)
	-----	-----	-----	-----
Fair value of plan assets at end of year	\$32.7	31.1	\$ --	--
	=====	=====	=====	=====

Employer contributions and benefits paid under the pension plans include \$0.2 million paid from employer assets in 2005 and 2004.

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
(Dollars in millions)				
Funded Status				
Funded status at end of year	\$ (17.5)	(13.9)	\$ (0.7)	(0.7)
Unrecognized prior service cost	--	--	(0.1)	--
Unrecognized net actuarial (gain) loss	13.3	9.4	(1.1)	(1.2)
	-----	-----	-----	-----
Accrued benefit cost	(4.2)	(4.5)	(1.9)	(1.9)
	-----	-----	-----	-----
Amounts recognized in the Balance Sheet consist of:				
Accrued benefit cost	(4.2)	(4.5)	(1.9)	(1.9)
Additional minimum liability	(13.3)	(9.4)	--	--
Accumulated other comprehensive income (before tax effect)	13.3	9.4	--	--
	-----	-----	-----	-----
Accrued benefit liability	\$ (4.2)	(4.5)	\$ (1.9)	(1.9)
	=====	=====	=====	=====

An additional \$3.9 million was included in other comprehensive income during the current year period arising from a change in the additional minimum liability during 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the components of net periodic benefit cost for the plans for the years ended September 30, 2005, 2004 and 2003:

	Pension Benefits			Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
(Dollars in millions)						
Service cost	\$ --	0.6	1.9	\$--	--	--
Interest cost	2.6	2.5	2.9	--	--	0.1
Expected return on plan assets	(2.9)	(2.9)	(3.0)	--	--	--
Amortization of service costs	--	--	0.1	--	--	--
Net actuarial gain	0.2	0.1	0.2	--	--	--
Curtailement charge	--	--	0.4	--	--	--
Net amortization and deferral	--	--	--	--	(0.1)	(0.2)
Settlement charge	--	--	--	--	--	(2.2)
Net periodic benefit cost	(0.1)	0.3	2.5	--	(0.1)	(2.3)
Defined contribution plans	2.4	1.9	0.4	--	--	--
Total	\$ 2.3	2.2	2.9	\$--	(0.1)	(2.3)

The Company recognized a curtailment charge and settlement charge in 2003 as a result of a change in plan benefits and the sale of Rantec in April 2003.

The following weighted-average assumptions were used to determine the net periodic benefit cost for pension and postretirement plans:

	Pension and Other Postretirement Benefits		
	2005	2004	2003
Discount rate	6.00%	6.00%	6.75%
Rate of increase in compensation levels(1)	N/A	4.00%	4.50%
Expected long-term rate of return on assets(1)	8.25%	8.25%	8.50%

(1) Applies only to pension plans

The following weighted-average assumptions were used to determine the net periodic benefit obligations for pension and postretirement plans:

	Pension and Other Postretirement Benefits	
	2005	2004
Discount rate	5.25%	6.00%
Rate of increase in compensation levels(1)	--	--

(1) Applies only to pension plans

The assumed rate of increase in compensation levels is not applicable in 2005 and 2004 as the plan was frozen as of December 31, 2003.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The September 30, 2005 net benefit obligation was based on a health care cost trend of 9% for 2005, decreasing 1% per year to 5% in 2010. The September 30, 2004 net benefit obligation was based on a health care cost trend of 10% for 2004, decreasing 1% per year to 5% in 2010. A one-percentage-point change in the assumed health care cost trend rates would have had less than a \$3,000 impact on the postretirement benefit obligation. The net periodic benefit cost was based on an assumed health care cost trend of 10% for 2005 decreasing 1% per year to 5% in 2010, 9% for 2004 decreasing 1% per year to 5% in 2008, and 10% for 2003 decreasing 1% per year to 5% in 2008. A one-percentage-point change in the assumed health care cost trend rates would have had less than a \$1,000 impact on total of service and interest cost.





NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The asset allocation for the Company's pension plans at the end of 2005 and 2004, the Company's acceptable range and the target allocation for 2006, by asset category, follows:

ASSET CATEGORY	Target Allocation 2006	Acceptable Range	Percentage of Plan Assets at Year-end	
			2005	2004
Equity securities	60%	50-70%	65%	63%
Fixed income	40%	30-50%	31%	34%
Cash / cash equivalents	0%	0-5%	4%	3%

The Company's pension plan assets are managed by outside investment managers and assets are rebalanced when the target ranges are exceeded. Pension plan assets consist principally of marketable securities including common stocks, bonds, and interest-bearing deposits. The Company's investment strategy with respect to pension assets is to achieve a total rate of return (income and capital appreciation) that is sufficient to accomplish the purpose of providing retirement benefits to all eligible and future retirees of the pension plans. The Company regularly monitors performance and compliance with investment guidelines.

EXPECTED CASH FLOWS

Information about the expected cash flows for the pension and other postretirement benefit plans follows:

	Pension Benefits	Other Benefits
(Dollars in millions)		
Expected Employer Contributions - 2006	\$ 0.9	0.1
Expected Benefit Payments		
2006	2.0	0.1
2007	2.1	0.1
2008	2.2	0.1
2009	2.3	0.1
2010	2.4	0.1
2011-2015	\$13.5	0.6

13. OTHER FINANCIAL DATA

Items charged to operations during the years ended September 30, 2005, 2004 and 2003 included the following:

	2005	2004	2003
(Dollars in thousands)			
Salaries and wages (including fringes)	\$100,372	93,536	88,968
Maintenance and repairs	3,897	4,326	3,895
Research and development (R&D) costs:			
Company-sponsored	\$ 16,829	12,201	10,978
Customer-sponsored	5,687	6,064	7,067
Total R&D	\$ 22,516	18,265	18,045
Other engineering costs	7,763	9,636	6,694
Total R&D and other engineering costs	\$ 30,279	27,901	24,739
As a % of net sales	7.1%	6.6%	6.2%

The increase in salaries and wages in 2005 compared to 2004 and 2003 is mainly due to the addition of personnel within the Communications and Test segments.

Customer-sponsored R&D is defined in note 1 (n) of notes to consolidated financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. BUSINESS SEGMENT INFORMATION

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company has three operating units: Filtration/Fluid Flow, Communications and RF Shielding and Test (Test). Filtration/Fluid Flow continuing primary operations consist of: Filtertek Inc. (Filtertek), PTI Technologies Inc. (PTI) and VACCO Industries (VACCO). Filtertek develops and manufactures a broad range of high-volume, original equipment manufacturer (OEM) filtration products at its facilities in North America, South America and Europe. PTI and VACCO develop and manufacture a wide range of filtration products and are leading suppliers of filters to the commercial and defense aerospace, satellite and industrial markets. Each of the components of the Filtration/Fluid Flow segment are presented separately due to differing long-term economics. Communications operations consist of Distribution Control Systems, Inc. (DCSI) which is principally involved in providing two-way power line communication systems for the utility industry. These systems provide the electric utilities with a patented communication technology for demand-side management, distribution automation and automatic meter reading capabilities. Communications also includes the operations of Comtrak Technologies, L.L.C., a provider of digital video security systems. Test segment operations represent the EMC Group, consisting primarily of EMC Test Systems, L.P. (ETS) and Lindgren RF Enclosures, Inc. (Lindgren). The EMC Group is principally involved in the design and manufacture of EMC test equipment, test chambers, and electromagnetic absorption materials. The EMC Group also manufactures radio frequency (RF) shielding products and components used by manufacturers of medical equipment, communications systems, electronic products, and shielded rooms for high security data processing and secure communication. Accounting policies of the segments are the same as those described in the summary of significant accounting policies in note 1 to the Consolidated Financial Statements.

In accordance with SFAS 131, the Company evaluates the performance of its operating units based on EBIT, which is defined as: Earnings Before Interest and Taxes. Intersegment sales and transfers are not significant. Segment assets consist primarily of customer receivables, inventories and fixed assets directly associated with the production processes of the segment. Segment assets also include goodwill. Segment depreciation and amortization is based upon the direct assets listed above.

NET SALES

Year ended September 30,	2005	2004	2003
-----	-----	-----	-----
(Dollars in millions)			
PTI	\$ 40.7	38.1	37.0
VACCO	38.9	43.2	37.3
Filtertek	92.1	92.6	89.8
	-----	-----	-----
Filtration/Fluid Flow subtotal	171.7	173.9	164.1
Communications	138.0	137.8	142.3
Test	119.4	110.4	90.3
	-----	-----	-----
Consolidated totals	\$429.1	422.1	396.7
	=====	=====	=====

Sales to PPL Electric Utilities Corporation were \$63.9 million or 16% of the total net sales in 2003. No other customers exceeded 10% of net sales in the periods presented.

EBIT

Year ended September 30,	2005	2004	2003
-----	-----	-----	-----
(Dollars in millions)			
PTI	\$ 3.8	2.4	2.9
VACCO	10.4	13.7	10.6
Filtertek	8.2	5.7	5.3
	-----	-----	-----
Filtration/Fluid Flow subtotal	22.4	21.8	18.8
Communications	38.8	38.4	33.5
Test	12.2	11.3	7.5
Reconciliation to consolidated totals (Corporate)	(11.4)	(11.8)	(16.7)
	-----	-----	-----
Consolidated EBIT	62.0	59.7	43.1
Add: interest income	1.9	0.8	0.2
	-----	-----	-----
Earnings before income tax	\$63.9	60.5	43.4
	=====	=====	=====



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

IDENTIFIABLE ASSETS

Year ended September 30, -----	2005	2004	2003
(Dollars in millions)			
PTI	\$ 36.7	39.7	40.2
VACCO	19.7	21.8	23.9
Filertek	91.5	93.0	91.4
	-----	-----	-----
Filtration/Fluid Flow subtotal	147.9	154.5	155.5
Communications	52.4	51.3	42.4
Test	80.7	75.1	76.0
Reconciliation to consolidated totals (Corporate assets)	147.7	121.5	81.1
Reconciliation to consolidated totals (Discontinued operations)	--	--	38.4
	-----	-----	-----
Consolidated totals	\$428.7	402.4	393.4
	=====	=====	=====

Corporate assets consist primarily of deferred taxes and cash balances.

CAPITAL EXPENDITURES

Year ended September 30, -----	2005	2004	2003
(Dollars in millions)			
PTI	\$1.0	1.1	1.4
VACCO	0.7	0.6	0.3
Filertek	4.0	6.7	5.1
	-----	-----	-----
Filtration/Fluid Flow subtotal	5.7	8.4	6.8
Communications	1.9	1.5	3.0
Test	1.2	0.9	0.7
Reconciliation to consolidated totals (Corporate)	--	--	0.1
	-----	-----	-----
Consolidated totals	\$8.8	10.8	10.6
	=====	=====	=====

DEPRECIATION AND AMORTIZATION

Year ended September 30, -----	2005	2004	2003
(Dollars in millions)			
PTI	\$ 1.5	1.7	1.2
VACCO	0.7	0.7	0.9
Filertek	6.2	6.0	6.1
	-----	-----	-----
Filtration/Fluid Flow subtotal	8.4	8.4	8.2
Communications	2.0	1.7	1.5
Test	1.4	1.4	1.3
Reconciliation to consolidated totals (Corporate)	0.4	0.4	2.5
	-----	-----	-----
Consolidated totals	\$12.2	11.9	13.5
	=====	=====	=====

The 2003 Corporate amount includes the impact of accumulated depreciation recorded upon the consolidation of its synthetic lease obligation onto its balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GEOGRAPHIC INFORMATION

NET SALES	2005	2004	2003
-----	-----	-----	-----
(Dollars in millions)			
United States	\$325.3	330.6	322.0
Europe	56.0	58.3	42.4
Far East	29.6	18.8	16.6
Other	18.2	14.4	15.7
	-----	-----	-----
Consolidated totals	\$429.1	422.1	396.7
	=====	=====	=====

LONG-LIVED ASSETS	2005	2004	2003
-----	-----	-----	-----
(Dollars in millions)			
United States	\$50.3	53.5	59.3
Europe	10.9	11.6	10.4
Other	6.0	4.0	1.5
	-----	-----	-----
Consolidated totals	\$67.2	69.1	71.2
	=====	=====	=====

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

15. ACCOUNTING CHANGE - 2003

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of ARB No. 51, which addresses consolidation by business enterprises of variable interest entities. The Company adopted this Interpretation during the fiscal 2003 fourth quarter and consolidated the synthetic lease obligation, resulting in a \$1.4 million after-tax charge recorded as a cumulative effect of accounting change. Also, during the fiscal 2003 fourth quarter, the Company fully repaid the \$31.5 million synthetic lease obligation.

16. COMMITMENTS AND CONTINGENCIES

At September 30, 2005, the Company had \$2.5 million in letters of credit outstanding as guarantees of contract performance. As a normal incidence of the businesses in which the Company is engaged, various claims, charges and litigation are asserted or commenced against the Company. With respect to claims and litigation asserted or commenced against the Company, it is the opinion of Management, that final judgments, if any, which might be rendered against the Company in current litigation are adequately reserved, covered by insurance, or would not have a material adverse effect on its financial condition or results of operation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FISCAL YEAR
	-----	-----	-----	-----	-----
(Dollars in thousands, except per share amounts)					
2005					
Net sales	\$104,375	106,160	108,800	109,780	429,115
Net earnings	10,523	10,427	12,401	10,193	43,544
	-----	-----	-----	-----	-----
Basic earnings per share:					
Net earnings	.41	.42	.48	.40	1.71
Diluted earnings per share:					
Net earnings	\$ .40	.40	.47	.39	1.66
	=====	=====	=====	=====	=====
2004					
Net sales	\$ 96,396	102,171	107,911	115,608	422,085
Net earnings from continuing operations	6,588	7,565	11,216	12,447	37,816
Net earnings (loss) from discontinued operations	(437)	(2,200)	825	(333)	(2,145)
	-----	-----	-----	-----	-----
Net earnings	6,151	5,365	12,041	12,114	35,671
Basic earnings (loss) per share:					
Net earnings from continuing operations	.26	.30	.44	.48	1.47
Net earnings (loss) from discontinued operations	(.02)	(.09)	.03	(.01)	(.09)
	-----	-----	-----	-----	-----
Net earnings	.24	.21	.47	.47	1.38
Diluted earnings (loss) per share:					
Net earnings from continuing operations	.25	.29	.42	.47	1.42
Net earnings (loss) from discontinued operations	(.02)	(.09)	.03	(.01)	(.08)
	-----	-----	-----	-----	-----
Net earnings	\$ .23	.20	.45	.46	1.34
	=====	=====	=====	=====	=====

The 2004 financial information presented above includes the results of the MicroSep businesses as discontinued operations.

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND SHAREHOLDERS  
ESCO TECHNOLOGIES INC.:

We have audited the accompanying consolidated balance sheets of ESCO Technologies Inc. and subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ESCO Technologies Inc. and subsidiaries as of September 30, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in note 15 of the notes to consolidated financial statements, on July 1, 2003, the Company adopted FASB Interpretation No. 46, "Consolidation of Variable Interest Entities."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ESCO Technologies Inc.'s internal control over financial reporting as of September 30, 2005, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the (COSO), and our report dated December 9, 2005, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

St. Louis, Missouri  
December 9, 2005



MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in the Securities Exchange Act Rule 13a-15(f)). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Because of its inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements due to the possibility that a control can be circumvented or overridden or that misstatements due to error or fraud may occur that are not detected. Also, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2005 using criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company maintained effective internal control over financial reporting as of September 30, 2005 based on these criteria.

Our internal control over financial reporting as of September 30, 2005, as well as our assessment of the effectiveness of our internal control over financial reporting as of September 30, 2005, have been audited by KPMG LLP, an independent registered public accounting firm, as stated in the report which is included herein.

/s/ Victor L. Richey

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Victor L. Richey  
Chairman and Chief Executive Officer

/s/ Gary E. Muenster

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Gary E. Muenster  
Senior Vice President and  
Chief Financial Officer

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND SHAREHOLDERS  
ESCO TECHNOLOGIES INC.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting on the previous page that ESCO Technologies Inc. maintained effective internal control over the financial reporting as of September 30, 2005, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ESCO Technologies Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards required that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that ESCO Technologies Inc. maintained effective internal control over financial reporting as of September 30, 2005, is fairly stated, in all material respects, based on criteria established in the Internal Control-Integrated Framework issued by COSO. Also, in our opinion, ESCO Technologies Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2005, based on criteria established in the Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ESCO Technologies Inc. and subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended September 30, 2005, and our report dated December 9, 2005, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

St. Louis, Missouri  
December 9, 2005

## SHAREHOLDERS' SUMMARY

**SHAREHOLDERS' ANNUAL MEETING** The Annual Meeting of the shareholders of ESCO Technologies Inc. will be held at 9:30 a.m. Thursday, February 2, 2006, at the Hilton St. Louis Frontenac Hotel, 1335 South Lindbergh Boulevard, St. Louis County, Missouri 63131. Notice of the meeting and a proxy statement were sent to shareholders with this Annual Report.

**CERTIFICATIONS** Pursuant to New York Stock Exchange (NYSE) requirements, the Company submitted to the NYSE the annual certifications, dated March 17, 2004 and March 3, 2005, by the Company's chief executive officer that he was not aware of any violations by the Company of NYSE's corporate governance listing standards. In addition, the Company filed with the Securities and Exchange Commission the certifications by the Company's chief executive officer and chief financial officer regarding the quality of the Company's public disclosure required under Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the Company's Forms 10-K for its fiscal years ended September 30, 2005 and September 30, 2004.

**10-K REPORT** A copy of the Company's 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders without charge. Direct your written request to the Investor Relations Department, ESCO Technologies Inc., 9900A Clayton Road, St. Louis, Missouri 63124.

The Form 10-K is also available on the Company's web site at [www.escotechnologies.com](http://www.escotechnologies.com).

**INVESTOR RELATIONS** Additional investor-related information may be obtained by contacting the Director of Investor Relations at (314) 213-7277 or toll free at (888) 622-3726. Information is also available through the Company's website at [www.escotechnologies.com](http://www.escotechnologies.com) or by e-mail at [pmoore@escotechnologies.com](mailto:pmoore@escotechnologies.com).

**TRANSFER AGENT AND REGISTRAR** Shareholder inquiries concerning lost certificates, transfer of shares or address changes should be directed to:

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016-3572  
1 (800) 368-5948  
E-mail: [info@rtco.com](mailto:info@rtco.com)

**CAPITAL STOCK INFORMATION** ESCO Technologies Inc. common stock shares (symbol ESE) are listed on the New York Stock Exchange. There were approximately 2,800 holders of record of shares of common stock at September 30, 2005.

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
10 South Broadway, Suite 900  
St. Louis, Missouri 63102

COMMON STOCK MARKET PRICE

ESCO's common stock and associated preferred stock purchase rights (subsequently referred to as common stock) are listed on the New York Stock Exchange under the symbol "ESE." The following table summarizes the high and low prices of the common stock for each quarter of fiscal 2005 and 2004. These amounts have been adjusted to reflect the 2-for-1 stock split which occurred on September 23, 2005.

Quarter	2005		2004	
	HIGH	LOW	High	Low
First	\$39.48	32.25	\$24.41	19.96
Second	42.43	34.49	24.08	21.31
Third	53.25	35.40	26.79	22.82
Fourth	56.23	47.18	34.95	24.92
	=====	=====	=====	=====

ESCO historically has not paid cash dividends on its common stock. Management continues to evaluate its cash dividend policy. There are no current plans to initiate a dividend.

SUBSIDIARIES OF  
ESCO TECHNOLOGIES INC.

NAME	STATE OR JURISDICTION OF INCORPORATION OR ORGANIZATION	NAME UNDER WHICH IT DOES BUSINESS
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Beijing Lindgren ElectronMagnetic Technology Co., Ltd.	People's Republic of China	Same
Comtrak Technologies, L.L.C.	Missouri	Same
Distribution Control Systems Caribe, Inc.	Puerto Rico	Same
Distribution Control Systems, Inc.	Missouri	Same
ETS-Lindgren, L.P.	Texas	Same and Acoustics Systems
ETS-Lindgren Japan, Inc.	Japan	Same
ESCO Electronica De Mexico, S.A. de C.V.	Mexico	Same
ESCO Technologies Holding Inc.	Delaware	Same
Euroshield OY	Finland	Same
Filftertek Inc.	Delaware	Same and Tek Packaging Division
Filftertek BV	Netherlands	Same
Filftertek do Brasil Industria E Comercio LTDA	Brazil	Same
Filftertek SA	France	Same
Lindgren R.F. Enclosures, Inc.	Illinois	Same and ETS-Lindgren
PTI Technologies Inc.	Delaware	Same
Ray Proof Limited	England	Same
VACCO Industries	California	Same

## Consent of Independent Registered Public Accounting Firm

The Board of Directors  
ESCO Technologies Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 33-39737, 33-47916, 33-98112, 333-92945, 333-77887, 333-96309, 333-63930, 333-85268 and 333-117953) on Form S-8 of ESCO Technologies Inc. of our reports dated December 9, 2005, with respect to the consolidated balance sheets of ESCO Technologies Inc. and subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2005, management's assessment of the effectiveness of internal control over financial reporting as of September 30, 2005 and the effectiveness of internal control over financial reporting as of September 30, 2005, which reports appear in the Annual Report to Stockholders for fiscal year ended September 30, 2005, and is incorporated by reference in the September 30, 2005 annual report on Form 10-K of ESCO Technologies Inc., and with respect to the related consolidated financial statement schedule, which report appears in the September 30, 2005 annual report on Form 10-K of ESCO Technologies Inc.

Our reports refer to a change in accounting for consolidation of variable interest entities.

/s/ KPMG LLP  
St. Louis, Missouri  
December 9, 2005

## CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of ESCO Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) 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 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: December 12, 2005

/s/ V.L. Richey, Jr.

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V.L. Richey, Jr.  
Chairman and Chief Executive Officer

## CERTIFICATION

I, G.E. Muenster, certify that:

1. I have reviewed this annual report on Form 10-K of ESCO Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) 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 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: December 12, 2005

/s/ G.E. Muenster

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G.E. Muenster

Sr. Vice President and Chief Financial Officer



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

In connection with the annual report of ESCO Technologies Inc. (the "Company") on Form 10-K for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, V. L. Richey, Jr., Chairman and Chief Executive Officer of the Company, and G. E. Muenster, Vice President and Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 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: December 12, 2005

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

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