ESCO TECHNOLOGIES INC
Form 10-K
November 30, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 1-10596
ESCO Technologies Inc.
(Exact name of registrant as specified in its charter)

Missouri	43-1554045
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9900A Clayton Road St. Louis, Missouri	63124-1186
(Address of principal executive offices)	**(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 þ No o

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

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)
Yes o No o
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 l0-K or any amendment to this Form l0-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
Aggregate market value of the Common Stock held by non-affiliates of the registrant as of the close of trading on March 31, 2009: $995,623,909*

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

Number of shares of Common Stock outstanding at November 23, 2009: 26,442,188.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant s Annual Report to Stockholders for fiscal year ended September 30, 2009 (the 2009 Annual Report) (Parts I and II).

2. Portions of the registrant s Proxy Statement dated December 22, 2009 (the 2010 Proxy Statement) (Part III).

ESCO TECHNOLOGIES INC.
INDEX TO ANNUAL REPORT ON FORM 10-K

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 utility, industrial, aerospace and commercial applications. ESCO operates in three operating segments which, together with the operating subsidiaries within each segment, are as follows:

Utility Solutions Group (Utility Solutions):
Aclara Power-Line Systems Inc. (Aclara PLS)
Aclara RF Systems Inc. (Aclara RF)
Aclara Software Inc.
Distribution Control Systems Caribe, Inc.
Doble Engineering Company
Doble TransiNor AS
Doble PowerTest Limited
Doble Lemke GmbH (formerly LDIC GmbH)
Doble Lemke AG (formerly LDIC AG)

RF Shielding and Test (Test):
ETS-Lindgren L.P.
Lindgren R.F. Enclosures, Inc.
ETS-Lindgren OY
ETS Lindgren Limited
Beijing Lindgren ElectronMagnetic Technology Co., Ltd.
ETS Lindgren Engineering India Private Limited
ETS Lindgren Japan, Inc.

Filtration/Fluid Flow (Filtration):
PTI Technologies Inc. (PTI)
VACCO Industries (VACCO)
TekPackaging LLC

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

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 collectively referred to as the Company . The Company s businesses are subject to a number of risks and uncertainties, including without limitation those discussed in Item 1A below. See also Management s Discussion and Analysis appearing in the 2009 Annual Report, which is herein incorporated by reference, and Forward-Looking Information below.

On September 21, 2009, the Company acquired a minority equity interest in Firetide, Inc. for $4 million in cash. Firetide, Inc. is a provider of wireless infrastructure mesh network management systems utilized in utility applications.

On July 2, 2009, the Company acquired certain assets of Complus Systems Pvt Ltd. (Complus) in India for approximately $1.2 million in cash. Complus had been a distributor of ETS-Lindgren products in India. The assets were contributed to the Company s recently-formed subsidiary, ETS Lindgren Engineering India Private Limited.

DISCONTINUED OPERATION

On March 13, 2009 the Company completed the sale of the business and most of the assets of Comtrak Technologies, LLC (Comtrak) for $3.1 million, net, of cash. Comtrak is accounted for as a discontinued operation in the Consolidated Financial Statements and related notes in the 2009 Annual Report.

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 Comtrak. See Note 2 of the Notes to Consolidated Financial Statements in the 2009 Annual Report, which Note is herein incorporated by reference.

PRODUCTS

The Company s products are described below. See Note 15 of the Notes to Consolidated Financial Statements in the 2009 Annual Report for financial information regarding segments, which Note is herein incorporated by reference.

UTILITY SOLUTIONS

The Utility Solutions segment accounted for approximately 61%, 58% and 44% of the Company s total revenue in fiscal years 2009, 2008 and 2007, respectively.

Aclara RF provides, through its STAR® network, wireless radio frequency (RF) data communications systems to gas, water and electric utilities for advanced metering infrastructure (AMI) applications. The STAR® network provides accurate and timely billing, high/low consumption reporting, and non-revenue water loss detection. In November 2005, Aclara RF entered into a contract with Pacific Gas & Electric (PG&E) to provide its communications system for the gas meter portion of PG&E s AMI Project, and also gave PG&E the option to purchase Aclara RF s fixed network systems for the electric portion of the Project. The total anticipated contract revenue through the full five-year gas portion deployment is approximately $225 million, of which $190 million had been recorded through September 30, 2009. Items are purchased only upon issuance of purchase orders at the election of PG&E, and the contract is subject to certain contingencies and uncertainties. Total revenue received by Aclara RF in fiscal 2009 from the gas meter portion of this contract was $98 million. In fiscal 2009, PG&E notified Aclara RF that no further electric meter products would be purchased under this contract. For further discussion of this contract and certain related contingencies and uncertainties, see Item 1A Risk Factors and Management s Discussion and Analysis Pacific Gas & Electric appearing in the 2009 Annual Report. Revenues from STAR® network products, which may be considered a class of similar products, accounted for approximately 25%, 17% and 11% of the Company s total revenue in fiscal years 2009, 2008 and 2007, respectively.

Aclara PLS is a leading manufacturer of two-way power line communication systems for the electric utility industry (the TWACS® systems), which are composed of equipment (primarily meter modules and equipment for central stations and substations), software and support services. The Company, in fiscal 2008, completed the development of its TWACS NG software and released it for commercial use. The TWACS systems provide electric utilities with a proprietary communication technology for automatic meter reading, load control, interval data, outage assessment/restoration monitoring, remote service disconnect/connect, time-of-use data for critical peak pricing, tamper/theft detection and pre-paid metering. Revenue from the TWACS systems, which may be considered a class of similar products, accounted for approximately 19%, 25% and 29% of the Company s total revenue in fiscal years 2009, 2008 and 2007, respectively.

The Company s total sales to PG&E in fiscal 2009, comprising all Aclara sales described above, were $106.2 million, which represented approximately 17% of the Company s consolidated net sales.

Aclara Software Inc. provides utilities with software systems for energy and water information, delivering a scalable meter data management system (MDMS), comprehensive AMI/meter device records and asset management, proven business applications addressing areas such as revenue assurance and distribution asset analysis, and the industry s leading customer presentment and analysis applications. Aclara s analytics-based software applications are used by over 100 major energy organizations worldwide.

Doble is a supplier of high-end electronic diagnostic test products and services to the electric utility industry for the evaluation of power assets. Its products and services are used by electric utilities representing approximately 95% of the generated electric energy of North America and by the major manufacturers of electric power apparatus. Doble is a leading supplier of partial discharge testing instruments used to assess the integrity of high voltage power delivery equipment. It has been operating for over 80 years, and serves customers in 75 countries worldwide.

TEST

The Test segment accounted for approximately 22%, 23% and 32% of the Company s total revenue in fiscal years 2009, 2008 and 2007, respectively.

ETS-Lindgren designs and manufactures products to measure and contain magnetic, electromagnetic and acoustic energy. It supplies customers with a broad range of isolated environments including RF test enclosures, acoustic test enclosures, RF and magnetically shielded rooms, secure communication facilities and broadcast and recording studios. Many of these facilities include proprietary features such as shielded doors and windows. ETS-Lindgren also provides the design, program management, installation and integration services required to successfully complete these types of facilities.

ETS-Lindgren also supplies customers with a broad range of components including RF absorptive materials, RF filters, active compensation systems, antennas, antenna masts, turntables and electric and magnetic probes, RF test cells, proprietary measurement software and other test accessories required to perform a variety of tests. ETS-Lindgren also offers a variety of services including calibration for antennas and field probes, chamber certification, field surveys, customer training and a variety of product tests. ETS-Lindgren operates the following accredited test labs: American Association for Laboratory Accreditation (A2LA), National Voluntary Laboratory Accreditation Program (NAVLAP) and CATL (CTIA-The Wireless Association (CTIA) Accredited Test Lab). In addition, ETS-Lindgren serves the acoustics, medical, health and safety, electronics, wireless communications, automotive and defense markets.

FILTRATION

The Filtration segment accounted for approximately 17%, 19% and 24% of the Company s total revenue in fiscal years 2009, 2008 and 2007, respectively.

PTI is a leading supplier of filtration products serving the commercial aerospace, military aerospace and various industrial markets. The industrial markets include chemical processing, automotive and mobile equipment. Products include filter elements, assemblies, modules, indicators and other related components. All products must meet stringent quality requirements and withstand severe operating conditions. Product applications include aircraft, helicopters and mobile equipment hydraulic systems, aircraft engines and plant equipment. PTI supplies products worldwide to original equipment manufacturers and the U.S. government under long term contracts, and to the commercial aftermarkets through distribution channels.

VACCO supplies flow control products, valves and filters to the space, defense and commercial industries for use in aircraft, satellite propulsion systems, satellite launch vehicles, the space shuttle and its successor, Project Constellation. VACCO also uses its etched disc technology to produce quiet valves and manifolds for U.S. Navy applications.

TekPackaging LLC produces highly engineered thermoformed products and packaging materials for medical, retail, food and electronic applications.

MARKETING AND SALES

The Filtration and Test segments products, as well as Doble s products, generally are distributed to customers through a domestic and foreign network of distributors, sales representatives and in-house salespersons. Aclara s sales to investor-owned utilities are made directly to the utilities through its sales team.

Aclara utilizes distributors and direct sales representatives to sell its systems to the electric utility cooperative and municipal markets, and to gas, water and combination utilities. Aclara s software products are marketed utilizing its in-house sales force.

The Company s international sales accounted for approximately 18%, 21% and 19% of the Company s total sales in the fiscal years ended September 30, 2009, 2008 and 2007, respectively. See Note 15 of the Notes to Consolidated Financial Statements in the 2009 Annual Report for financial information regarding geographic areas, which Note is herein incorporated by reference. See also Item 1A Risk Factors for a discussion of risks of the Company s international operations.

Some of the Company s products are sold directly or indirectly to the U.S. Government under contracts with the Army, Navy and Air Force and subcontracts with prime contractors of such entities. Direct and indirect sales to the U.S. Government, primarily related to the Filtration segment, accounted for approximately 5%, 6% and 8% of the Company s total sales in the fiscal years ended September 30, 2009, 2008 and 2007, respectively.

INTELLECTUAL PROPERTY

The Company owns or has other rights in various forms of intellectual property (i.e., patents, trademarks, service marks, copyrights, mask works, trade secrets and other items). As a major supplier of engineered products to industrial and commercial markets, the Company emphasizes developing intellectual property and protecting its rights therein. However, the scope of protection afforded by intellectual property rights, including those of the Company, is often uncertain and involves complex legal and factual issues. Some intellectual property rights, such as patents, have only a limited term. Also, there can be no assurance that third parties will not infringe or design around the Company s intellectual property. Policing unauthorized use of intellectual property is difficult, and copyright infringement is a persistent problem for many companies, particularly in some international markets. In addition, the Company may not elect to pursue an unauthorized user due to the high costs and uncertainties associated with litigation. Further, there can be no assurance that courts will ultimately hold issued patents valid and enforceable. See Item 1A Risk Factors.

In the Utility Solutions segment, many of the products are based on patented or otherwise proprietary technology, including the Company s TWACS® technology. The TWACS® systems are protected primarily by a number of patents expiring on various dates ending in 2017. Patents covering significant aspects of the TWACS® technology will expire in 2010 for outbound signal reception and in 2017 for inbound signal generation. The expiration of the above patents in 2010 is not expected to have a material effect on the Company s operations. Other patents covering inbound and outbound signal detection expired in 2007. The Utility Solutions segment policy is to seek patent and/or other forms of intellectual property protection on new and improved products, components of products and methods of operation for its businesses, as such developments are made. The Company plans to protect the TWACS NG software code as a trade secret, although certain discrete features and functionality may be patented. The Company holds two significant patents which cover the operation of its STAR® network communications systems. These will expire in 2015 and 2016. Doble holds an extensive library of apparatus performance information useful to Doble employees and to entities that generate, distribute or consume electric energy. Doble makes part of this library available to registered users via an Internet portal.

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

With respect to the Filtration segment, a number of products are based on patented or otherwise proprietary technology that sets them apart from the competition. VACCO s proprietary quieting technology, which it protects as trade secrets, is a significant differentiator for products supplied to the U.S. Navy submarine fleet.

The Company considers its patent and other intellectual property to be of significant value in each of its segments. The Utility Solutions segment owns intellectual property, including its TWACS technology, which it deems necessary or desirable for the manufacture, use or sale of its products. See the references to the TWACS NG software above in this section and in Utility Solutions on page 2 of this report. No other segment is materially dependent on any single patent, group of patents or other intellectual property.

BACKLOG

Total Company backlog at September 30, 2009 was $299.4 million, representing an increase of $14.9 million (5.2%) from the beginning of the fiscal year backlog of $284.5 million. The backlog of firm orders at September 30, 2009 and September 30, 2008, respectively, was: $132.4 million and $143.2 million for Utility Solutions; $54.2 million and $69.8 million for Test; and $112.8 million and $71.5 million for Filtration. As of September 30, 2009, it is estimated that domestic customers accounted for approximately 76% of the Company s total firm orders, and international customers accounted for approximately 24%. Of the Company s total backlog of orders at September 30, 2009, approximately 88% is expected to be completed in the fiscal year ending September 30, 2010.

PURCHASED COMPONENTS AND RAW MATERIALS

The Company s products require a wide variety of components and materials. Although the Company has multiple sources of supply for most of its materials requirements, certain components and raw materials are supplied by sole-source vendors, and the Company s ability to perform certain contracts depends on their performance. In the past, these required raw materials and various purchased components generally have been available in sufficient quantities. However, in each of the Company s segments, there are instances of some risk of shortages of materials or components due to reliance on sole or limited source of supply. See Item 1A Risk Factors.

In the Utility Solutions segment, in addition to its internal manufacturing of RF end-products, Aclara RF has contracts with three independent manufacturers which produce and supply a significant amount of such end-products, as well as contracts with several of the suppliers of the raw materials that are incorporated into such end-products. Aclara PLS has arrangements with two independent manufacturers which produce and supply substantially all of Aclara PLS s power-line end-products. One of these manufacturers is an industry leader with worldwide operations. Each of these manufacturers is directed by Aclara PLS to purchase certain unique raw material components from suppliers designated by Aclara PLS. Aclara PLS also has contracts with certain of the raw material suppliers, directing them to supply such raw materials to Aclara PLS s manufacturers. The Company believes that the above-described manufacturers and suppliers will be reliable sources for Aclara s end-products for the foreseeable future.

The Test segment is a vertically integrated supplier of electro-magnetic (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.

The Filtration segment purchases supplies from a wide array of vendors. In most instances, multiple vendors of raw materials are screened during a qualification process to ensure that there will not be an interruption of supply should one of them discontinue operations. Nonetheless, in some situations, there is a risk of shortages due to reliance on a limited number of suppliers or because of price fluctuations due to the nature of the raw materials. For example, titanium, an important raw material for VACCO, may continue to sometimes be in short supply.

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 some of the Filtration markets. Although the Company is a leading supplier in several of the markets it serves, it maintains a relatively small share of the business in many of the other markets it serves. Individual competitors range in size from annual revenues of less than $1 million to billion dollar enterprises. Because of the specialized nature of the Company s products, its competitive position with respect to its products cannot be precisely stated. However, Aclara is believed to be a leading supplier in the fixed network segment of the AMI market.

This fixed network segment comprises a substantial part of the total AMI market for utilities. Substantial efforts are required in order to maintain existing business levels. In the Company s major served markets, competition is driven primarily by quality, technology, price and delivery performance. See Item 1A Risk Factors.

Primary competitors of Aclara in the utility communications market include Itron, Inc., Silver Spring Networks, Landis + Gyr, Cannon Technologies Inc., Sensus Metering Systems Inc., Trilliant Inc., Elster Electricity, L.L.C., Comverge, Inc., Neptune Technology Group, e-Meter Corporation, Oracle Corporation, APOGEE Interactive Inc., Ecologic Analytics, LLC, SmartSynch, Inc. and Tantalus Systems Corp. OMICRON electronics Corp. USA has for some time been a primary competitor of Doble in the international market, and has recently increased competition in the North America market. OMICRON has the ability to heavily fund research and development. In addition, Megger Group Limited has recently emerged as a significant competitor to Doble.

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

Primary competitors of the Filtration segment include Pall Corporation, Moog, Inc., SoFrance, Allied Signal and Clarcor Inc.

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, 2009, 2008 and 2007, total Company-sponsored research and development expenses were approximately $32.0 million, $33.0 million and $23.5 million, respectively. Total customer-sponsored research and development expenses were approximately $2.9 million, $5.3 million and $3.7 million for the fiscal years ended September 30, 2009, 2008 and 2007, respectively. All of the foregoing expense amounts exclude certain engineering costs primarily associated with product line extensions, modifications and maintenance, which amounted to approximately $14.4 million, $8.6 million and $7.8 million for the fiscal years ended September 30, 2009, 2008 and 2007, 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 condition or results of operations.

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 from its customer. See Marketing And Sales in this Item 1, and Item 1A Risk Factors for additional information regarding

Government contracts.

EMPLOYEES

As of September 30, 2009, the Company employed approximately 2,140 persons.

FINANCING

The Company maintains a $330 million five-year revolving credit facility with a $50 million increase option. The facility is available for direct borrowings and/or the issuance of letters of credit, and is provided by a group of sixteen banks, led by National City Bank as agent, with a maturity of November 30, 2012. 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 Bank Credit Facility in the 2009 Annual Report, and Note 9 of the Notes to Consolidated Financial Statements in the 2009 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 production and supply of engineered products and systems marketed to utility, industrial, aerospace and commercial users. Effective July 10, 2000, ESCO changed its name from ESCO Electronics Corporation to ESCO Technologies Inc. See Notes 2 and 3 of the Notes to Consolidated Financial Statements in the 2009 Annual Report, which Notes are herein incorporated by reference.

AVAILABLE INFORMATION

The Company makes available free of charge on or through its Internet website, www.escotechnologies.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

Item 1A. Risk Factors

This Form 10-K, including Item 1 Business, Item 2 Properties , Item 3 Legal Proceedings and Item 7 Managemen Discussion and Analysis of Financial Condition and Results of Operations (incorporated by reference to Management s Discussion and Analysis appearing in the 2009 Annual Report), contains forward-looking statements within the meaning of the safe harbor provisions of the federal securities laws. In addition to the risks and uncertainties discussed elsewhere in this Form 10-K, the following are important risk factors which could cause actual results and events to differ materially from those contained in any forward-looking statements.

MOST UTILITY SOLUTIONS SEGMENT SALES ARE TO OR FOR THE UTILITY INDUSTRY, KNOWN FOR LONG SALES CYCLES AND UNCERTAINTY, WHICH COULD AFFECT THE TIMING OF REVENUE.

Most of the Utility Solutions segment s sales are to or for the utility industry, where sales cycles are long and often unpredictable due to budgeting, purchasing and regulatory approval processes that can take up to several years to complete. Most Aclara sales involve large dollar amounts, and are marked by extended and complex competitive procurements. These factors often cause delays in the timing of sales, and such delays could result in order postponement, reduction in size or cancellation, thereby reducing or delaying the Company s future revenue. In addition, delays in the receipt of grants by certain utility customers under the American Recovery and Reinvestment Act of 2009 may cause delays in the placement of orders with Aclara. Also, these customers selection of vendors may be influenced by the specific terms of such grants, such as buy-American requirements, which may prohibit the supply by

Aclara of products produced outside the U.S.

NEGATIVE WORLDWIDE ECONOMIC CONDITIONS AND RELATED CREDIT SHORTAGES COULD RESULT IN A DECREASE IN THE COMPANY S SALES AND AN INCREASE IN ITS OPERATING COSTS, WHICH COULD ADVERSELY AFFECT ITS BUSINESS AND OPERATING RESULTS.

If there is a worsening of current global and U.S. economic and financial market conditions and additional tightening of global credit markets, many of the Company s customers may further delay or reduce their purchases of its products. The current uncertainties in the global economy may cause the utility industry to experience shortages in available credit, which could limit capital spending. To the extent this problem affects customers of the Utility Solutions segment, the sales and profits of this segment could be adversely affected. Likewise, if the Company s suppliers face challenges in obtaining credit, they may have to increase their prices or become unable to continue to offer the products and services the Company uses to manufacture its products, which could have an adverse effect on its business, results of operations and financial condition.

CREDIT SHORTAGES COULD AFFECT THE PRICING OF THE COMPANY S CREDIT FACILITY INCREASE OPTION.

Tightening of the global credit markets could cause an increase in the pricing or fees related to the Company s overall credit facility if the Company exercises its $50 million increase option.

A SIGNIFICANT PORTION OF THE UTILITY SOLUTIONS SEGMENT REVENUES MAY BE GENERATED BY A LIMITED NUMBER OF LARGE CONTRACTS.

A significant portion of the Utility Solutions segment s business may be dependent on several large contracts with customers. The loss of revenue which would result from such a customer s selection of other suppliers, cancellations, delays, reductions, regulatory actions or the Company s failure to perform in connection with such a contract could have a material adverse effect on the Company s business, results of operations and financial condition.

THE COMPANY S QUARTERLY RESULTS MAY FLUCTUATE SUBSTANTIALLY.

The Company has experienced variability in quarterly results and believes its quarterly results will continue to fluctuate as a result of many factors, including the size and timing of customer orders, Federal Communications Commission or other governmental actions, changes in existing taxation rules or practices, the gain or loss of significant customers, timing and levels of new product developments, shifts in product or sales channel mix, increased competition and pricing pressure, and general economic conditions affecting enterprise spending for the utility industry.

FAILURE OR DELAY IN NEW PRODUCT DEVELOPMENT COULD REDUCE THE COMPANY S FUTURE SALES.

Much of the Company s business is dependent on the continuous development of new products and technologies to meet the changing needs of the Company s markets on a cost-effective basis. Many of these markets are highly technical from an engineering standpoint, and the relevant technologies are subject to rapid change.

If the Company fails to timely enhance existing products or develop new products, sales opportunities could be lost, which would adversely affect business. In addition, in some existing contracts with customers, the Company has made commitments to develop and deliver new products. If the Company fails to meet these commitments, the default could result in the imposition of contractual penalties including termination. The inability to enhance existing products in a timely manner could make the products less competitive, while the inability to successfully develop new products may limit growth opportunities. Delays in product development may also require greater investment in research and development. Increased costs associated with new product development and product enhancements could adversely affect operating results. The costs of new product development may not be recoverable if demand for the products is not as anticipated.

A SIGNIFICANT PORTION OF THE COMPANY S CAPITALIZED SOFTWARE IS SUBJECT TO IMPAIRMENT RISK BASED ON THE ABILITY TO MARKET THE SOFTWARE.

A significant portion of the Company s capitalized software value is contingent on the future sales of TWACS NG software. Failure to generate sufficient sales to recoup costs could result in the impairment of the capitalized software costs.

CERTAIN MANUFACTURING OPERATIONS ARE DEPENDENT ON A SMALL NUMBER OF THIRD-PARTY SUPPLIERS

A significant part of the Utility Solutions segment s manufacturing operations relies on a small number of third-party manufacturers to supply the segment s products. For example, Aclara has arrangements with four manufacturers which produce and supply substantially all of Aclara s end-products. Two of these suppliers produce these end-products in Mexico. A significant disruption (for example, a strike) in the supply of those products could negatively affect the timely delivery of Aclara s products to customers and future sales. Also, most of Doble s manufacturing operations rely on third-party manufacturers to supply its products. Disruption in the supply of critical components such as integrated circuit components could have an adverse impact on business by, among other things, increasing costs and reducing margins.

Certain of the Company s other businesses are dependent upon sole source or a limited number of third-party manufacturers of parts and components. Many of these suppliers are small businesses. Since alternative supply sources are limited, there is an increased risk of adverse impacts on the Company s production schedules and profits if the Company s suppliers were to default in fulfilling their price, quality or delivery obligations.

PRODUCT DEFECTS COULD RESULT IN COSTLY FIXES, LITIGATION AND DAMAGES.

If there are claims related to defective products (under warranty or otherwise), particularly in a product recall situation, the Company could be faced with significant expenses in replacing or repairing the product. For example, the Aclara meter modules are installed in thousands of residences and other buildings. The replacement/repair costs for such products, if defective, could have a material adverse effect on the Company s financial condition. Also, the Filtration segment obtains raw materials, machined parts and other product components from suppliers who provide certifications of quality which are relied on by the Company. Should these product components be defective and pass undetected into finished products, there could be significant costs to the Company for repairs, re-work or replacement.

In addition, if a dispute over product claims cannot be settled, arbitration or litigation may result, involving attorneys fees and the potential of damage awards against the Company.

INCREASES IN RAW MATERIAL PRICES AND DECREASED AVAILABILITY OF RAW MATERIALS COULD ADVERSELY AFFECT THE COMPANY S BUSINESS.

The cost of raw materials is a major element of the total cost of many of the Company s products. For example, the Test segment s critical components rely on purchases of raw materials from third parties. Increases in the prices of raw materials (such as steel, copper, nickel, zinc, wood and petrochemical products) could have an adverse impact on business by, among other things, increasing costs and reducing margins.

In addition, the Company s reliance on sole or limited sources of supply of raw materials in each of its segments could adversely affect the business. Weather-created disruptions in supply, in addition to affecting costs, could impact the Company s ability to procure an adequate supply of these raw materials and delay or prevent deliveries of products to customers.

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

In fiscal 2009, approximately 18% of the Company s sales were made to international customers. An economic downturn or an adverse change in the political situation in certain foreign countries in which the

Company does business could cause a decline in revenues and adversely affect the Company s financial condition. For example, the Test segment does significant business in Asia and Europe. Changes in the Asian political climate or political changes in specific Asian countries could negatively affect the Company s business. Weakness in the European economy could have a significant adverse effect on the Company s European revenues. For example, Doble Lemke GmbH is based in Germany and could be negatively impacted by weakness in the European economy.

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

SALES OF GOVERNMENT PRODUCTS DEPEND UPON CONTINUED GOVERNMENT FUNDING.

During the past three fiscal years, from 5% to 8% of the Company s revenues have been generated from sales to the U.S. Government or its contractors. These sales are dependent on continuous government funding of its programs. There could be reductions or terminations of the government funding on programs which are applicable to the Company or its customers. These funding effects could adversely affect the Company s sales and profit, and could bring about a restructuring of Company operations, which could result in an adverse effect on its financial condition or results of operations.

For example, a significant part of VACCO s sales involve major U.S. Government defense and space programs. Government reduction in spending on these programs could have a significant adverse impact on Company financial results.

THE END OF CUSTOMER PRODUCT LIFE CYCLES COULD NEGATIVELY AFFECT FILTRATION SEGMENT RESULTS.

Many of the Company s filtration products are sold to be components in the customers end-products. If a customer discontinues a certain end-product line, the ability of the Company to continue to sell those components will be reduced or eliminated. The result could be a significant decrease in Company sales.

For example, a substantial portion of PTI s revenue is generated from commercial aviation aftermarket sales. As certain aircraft are retired and replaced by newer aircraft, there could be a corresponding decrease in sales associated with the Company s current products. Such a decrease could adversely affect the Company s operating results. In addition, if the Government cuts back the space program, VACCO s sales of space products would be reduced, and its revenues could be adversely affected.

ACQUISITIONS OF OTHER COMPANIES CARRY RISK.

Acquisitions of other companies involve numerous risks, including difficulties in the integration of the operations, technologies and products of the acquired companies, the potential exposure to unanticipated and undisclosed liabilities, the potential that expected benefits or synergies are not realized and that operating costs increase, the potential loss of key personnel, suppliers or customers of acquired businesses and the diversion of management s time and attention from other business concerns. Although management will attempt to identify and evaluate the risks inherent in any future transaction, the Company may not properly ascertain all such risks.

DESPITE ITS EFFORTS, THE COMPANY MAY BE UNABLE TO ADEQUATELY PROTECT ITS INTELLECTUAL PROPERTY.

Despite the Company s efforts to protect its intellectual property, unauthorized parties or competitors may copy or otherwise obtain and use the Company s products and technology, particularly in foreign countries where the laws may not protect the Company s proprietary rights as fully as in the United States. Current and future actions to enforce the Company s proprietary rights may result in substantial costs and diversion of resources, and may not be successful. In addition, the Company may not elect to pursue an unauthorized user due to the high costs and uncertainties associated with litigation. The Company may also face exposure to claims by others challenging its intellectual property rights.

CHANGES IN TEST STANDARDS COULD ADVERSELY IMPACT TEST SEGMENT SALES.

A significant portion of the Test segment s business involves sales to technology customers, which results from these customers needing to meet specific international and domestic test standards. If demand for product testing from these customers decreases, the Company s business could be adversely affected. Likewise, if regulatory agencies eliminate or reduce certain domestic or international test standards, the Company s sales could be adversely affected. For example, if it were determined that there is no need to include Wi-Fi technology in mobile phones, there may be no need for certain testing on mobile phones. Also, if a regulatory authority relaxes the test standards for certain electronic devices because they do not interfere with the broadcast spectrum, sales of certain Test products could be reduced.

DISPUTES WITH CONTRACTORS COULD ADVERSELY AFFECT THE TEST SEGMENT S COSTS.

A major portion of the Test segment s business involves working in conjunction with general contractors to produce end-products, such as electronic test chambers, secure communication rooms, MRI facilities, etc. If there are performance problems caused by either the Company or a contractor, these often result in cost overruns and may lead to a dispute as to which party is responsible. The resolution of such disputes can result in arbitration or litigation, and could involve significant expense including attorneys fees. In addition, these disputes may result in reduction in revenue, a loss on a particular project, or even a significant damages award against the Company.

THE LOSS OF SPECIALIZED KEY EMPLOYEES COULD AFFECT PERFORMANCE AND REVENUES.

There is a risk of the Company s losing key employees having engineering and technical expertise to other employers. For example, the Utility Solutions segment relies heavily on engineers with significant experience and reputation in the utility industry to furnish expert consulting services and support to customers. There is a current trend of a shortage of these qualified engineers because of hiring competition from other companies in the industry. Loss of these employees to other employers could reduce the segment s ability to provide services and affect revenues negatively.

ENVIRONMENTAL OR REGULATORY REQUIREMENTS COULD INCREASE EXPENSES AND ADVERSELY AFFECT PROFITABILITY.

The Company s operations and properties are subject to U.S. and foreign environmental laws and regulations governing, among other things, the generation, storage, emission, discharge, transportation, treatment and disposal of hazardous materials and the clean up of contaminated properties. These regulations, and changes therein, could increase the cost of compliance. Failure to comply could result in the imposition of significant fines, suspension of production, alteration of product processes, cessation of operations or other actions, which could materially and adversely affect the Company s business, financial condition and results of operations. For example, the Company is currently involved as a responsible party in several on-going investigations and remediations of contaminated properties, both Company-owned and off-site. Future costs associated with these situations are difficult to quantify. These and any future costs associated with environmental issues currently unknown could have a significant effect on the Company s financial condition. See Item 1, Business-Environmental Matters for a discussion of these factors.

COMPETITION IS BROADLY BASED AND GLOBAL IN SCOPE.

The Company faces competition from a large number of manufacturers and distributors for nearly all of its products. Some of the Company s competitors are larger, more diversified corporations, global in scope, with greater financial, marketing, production and research and development resources. If the Company cannot compete successfully against current or future competitors, it could have a material adverse effect on the Company s business, financial condition and results of operations.

FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-K regarding future events and the Company s future results that are based on current expectations, estimates, forecasts and projections about the Company s performance and the industries in which the Company operates, 2010 revenues, EBIT, EPS, adequacy of the Company s credit facilities and future cash flows, estimates of anticipated contract costs and revenues, the anticipated total value of the Aclara RF Contract with PG&E and with the City of New York, the anticipated total value of Aclara PLS s contract with Idaho Power Company, the anticipated total value of TekPackaging s recently received five year production contract, the outcome of current litigation, claims and charges, the anticipated timing and amount of lost deferred tax assets, continued reinvestment of foreign earnings, the timing, total value and period of performance of contracts awarded to the Company, the accuracy of the Company s estimates utilized in software revenue recognition, the accuracy of the Company s estimates utilized to project costs at completion in the Test segment and Filtration segment, income tax liabilities, the effective tax rate, the amount, timing and ability to use net research tax credits, the timing and amount of the reduction of unrecognized tax benefits, repayment of debt within the next twelve months, the recognition of costs related to share-based compensation arrangements, future costs relating to environmental matters, share repurchases, investments, sustained performance improvement, performance improvement initiatives, growth opportunities, new product development, the Company s ability to increase shareholder value, acquisitions, and the beliefs and assumptions of Management contained in Management s Discussion and Analysis in the 2009 Annual Report, and other statements contained herein which are not strictly historical are considered forward-looking statements within the meaning of the safe harbor provisions of the Federal securities laws. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that such statements are only predictions, speak only as of the date of this report, and the Company undertakes no duty to update. The Company s actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company s operations and business environment including, but not limited to those described under this Item 1A. Risk Factors and the following: the timing and content of purchase order releases under the PG&E contract; termination for convenience of customer contracts; timing and magnitude of future contract awards; weakening of economic conditions in served markets; the success of the Company s competitors; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties; the availability of selected acquisitions; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; labor disputes; changes in laws and regulations including but not limited to changes in accounting standards and taxation requirements; costs relating to environmental matters; litigation uncertainty; and the Company s successful execution of internal operating plans.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company s principal buildings contain approximately 1,129,858 square feet of floor space. Approximately 715,200 square feet are owned by the Company and approximately 414,658 square feet are leased. See Note 7 of the Notes to Consolidated Financial Statements in the 2009 Annual Report, which information is herein incorporated by reference. The principal plants and offices are as follows:

Location	Size (Sq. Ft.)	Owned/Leased	Lease Expiration Date	Principal Use (Operating Segment)
Cedar Park, TX	140,000	Owned		Management, Engineering and Manufacturing (Test)
Oxnard, CA	127,400	Owned		Management, Engineering and Manufacturing

(Filtration)

Location	Size (Sq. Ft.)	Owned/Leased	Lease Expiration Date	Principal Use (Operating Segment)
Cleveland, OH	111,258	Leased	9-1-2019 (two 5-year renewal options)	Management, Engineering and Manufacturing (Utility Solutions)
South El Monte, CA	100,100	Owned		Management, Engineering and Manufacturing (Filtration)
Durant, OK	100,000	Owned		Manufacturing (Test)
Watertown, MA	88,800	Owned		Management, Engineering and Manufacturing (Utility Solutions)
St. Louis, MO	86,800	Leased	3-31-2013 (one 5-year renewal option)	Management and Engineering (Utility Solutions)
Huntley, IL	85,000	Owned		Management and Manufacturing (Filtration)
Glendale Heights, IL	59,400	Leased	3-31-2010 (three 3-year renewal options)	Management, Engineering and Manufacturing (Test)
Beijing, China	50,600	Leased	4,600 sq. ft. office 12-14-2010 46,000 sq. ft. plant 12-31-2009	Manufacturing (Test)
Eura, Finland	40,900	Owned		Management, Engineering and Manufacturing (Test)
St. Louis, MO	33,000	Owned		Management and Engineering (Utility Solutions)
Minocqua, WI	30,200	Leased	3-31-2010 (three 3-year renewal options)	Engineering and Manufacturing (Test)

St. Louis, MO	20,500	Leased	8-31-2015 (one 5-year renewal option)	ESCO Headquarters
Wellesley, MA	18,500	Leased	9-30-2012	Management and Engineering (Utility Solutions)
Morrisville, NC	16,700	Leased	3-31-2014 (one 3-year renewal option)	Management (Utility Solutions)
Stevenage, England	12,200	Leased	8-11-2017 (option to terminate in 2012)	Management, Engineering and Manufacturing (Test)
Kesselsdorf, Germany	8,500	Leased	5-31-2012	Management, Engineering and Manufacturing (Utility Solutions)

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 and other needs.

Item 3. Legal Proceedings

As a normal incident of the businesses in which the Company is engaged, various claims, charges and litigation are asserted or commenced from time to time against the Company. With respect to claims and litigation asserted or commenced against the Company, it is the opinion of management that final judgments, if any, which might be rendered against the Company are adequately reserved or covered by insurance, and are not likely to have a material adverse effect on its financial condition or results of operation.

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

None.

Executive Officers of the Registrant

The following sets forth certain information as of November 25, 2009 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.*	52	Chairman, President and Chief Executive Officer
Gary E. Muenster	49	Executive Vice President and Chief Financial Officer
Alyson S. Barclay	50	Senior Vice President, Secretary and General Counsel

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

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

Since April 2003, Mr. Richey has been Chairman and Chief Executive Officer of ESCO. Since October 2006, he has also been President.

Mr. Muenster was Vice President and Chief Financial Officer of ESCO from October 2002 until November 2005. From November 2005 until February 2008, he was Senior Vice President and Chief Financial Officer. Since the latter date, he has been Executive Vice President and Chief Financial Officer.

Ms. Barclay was Vice President, Secretary and General Counsel of ESCO from October 1999 until November 2008. Since the latter date, she has been Senior Vice President, Secretary and General Counsel.

PART II

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

The information required by this item is incorporated herein by reference to Notes 10 and 11 of the Notes to Consolidated Financial Statements, Common Stock Market Price and Shareholders Summary Capital Stock Information appearing in the 2009 Annual Report. As of November 10, 2009, there were approximately 2,400 record holders of Common Stock (including Company employees holding shares under the Employee Stock Purchase Plan). No cash dividends on ESCO s common stock have been paid for fiscal years 2008 or 2009. However, the Board of Directors, on November 12, 2009, adopted a resolution to initiate quarterly cash dividends payable at an annual rate of $0.32 per share on the common stock. The first quarterly dividend of $0.08 per share will be paid on January 19, 2010 to stockholders of record as of January 4, 2010. Like