ESCO TECHNOLOGIES INC
Form 10-Q
February 11, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2007

OR

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

COMMISSION FILE NUMBER 1-10596

ESCO TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

MISSOURI	43-1554045
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at January 31, 2008

[Common stock, $.01 par value per share]	25,823,039 shares

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended December 31,	
	2007	2006
Net sales	$ 134,957	80,587
Costs and expenses:		
Cost of sales	84,012	56,014
Selling, general and administrative expenses	33,510	26,623
Amortization of intangible assets	3,597	2,026
Interest expense (income), net	1,359	(321)
Other (income) and expenses, net	(214)	(554)
Total costs and expenses	122,264	83,788
Earnings (loss) before income taxes	12,693	(3,201)
Income tax expense (benefit)	4,788	(1,850)
Net earnings (loss) from continuing operations	7,905	(1,351)
Loss from discontinued operations, net of tax of $325 and $30, respectively	(115)	(30)
Loss on sale of discontinued operations, net of tax of $4,809	(4,974)	-
Net loss from discontinued operations	(5,089)	(30)
Net earnings (loss)	$ 2,816	(1,381)
Earnings (loss) per share:		
Basic - Continuing operations	$ 0.31	(0.05)
- Discontinued operations	(0.20)	-
- Net earnings (loss)	$ 0.11	(0.05)

Diluted - Continuing operations	$ 0.30	(0.05)
- Discontinued operations	(0.19)	-
- Net earnings (loss)	$ 0.11	(0.05)

See accompanying notes to consolidated financial statements.

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

	December 31, 2007	September 30, 2007
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 23,694	18,638
Accounts receivable, net	96,322	85,319
Costs and estimated earnings on long-term contracts, less progress billings of $26,091 and $21,292, respectively	10,885	11,520
Inventories	73,150	55,885
Current portion of deferred tax assets	18,982	25,264
Other current assets	14,122	28,054
Current assets of discontinued operations	1,100	35,670
Total current assets	238,255	260,350
Property, plant and equipment, net	71,499	50,193
Goodwill	339,737	124,757
Intangible assets, net	207,928	74,624
Other assets	14,965	10,338
Other assets of discontinued operations	-	55,845
Total assets	$ 872,384	576,107
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 30,000	-
Accounts payable	33,375	45,726
Advance payments on long-term contracts, less costs incurred of $4,285 and $2,902, respectively	6,945	3,408
Accrued salaries	14,160	12,348
Current portion of deferred revenue	15,201	24,621
Accrued other expenses	20,168	16,103
Current liabilities of discontinued operations	-	16,994
Total current liabilities	119,849	119,200
Long-term portion of deferred revenue	5,389	4,514
Pension obligations	9,206	8,029
Deferred tax liabilities	72,365	18,522
Other liabilities	8,971	7,825

Long-term debt, less current portion	235,000	-
Other liabilities of discontinued operations	-	2,534
Total liabilities	450,780	160,624
Shareholders' equity:		
Preferred stock, par value $.01 per share, authorized 10,000,000 shares	-	-
Common stock, par value $.01 per share, authorized 50,000,000 shares, issued 29,181,663 and 29,159,629 shares, respectively	292	292
Additional paid-in capital	245,013	243,131
Retained earnings	229,575	226,759
Accumulated other comprehensive income, net of tax	7,275	6,303
	482,155	476,485
Less treasury stock, at cost: 3,389,166 and 3,416,966 common shares, respectively	(60,551)	(61,002)
Total shareholders' equity	421,604	415,483
Total liabilities and shareholders' equity	$ 872,384	576,107

See accompanying notes to consolidated financial statements.

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

	Three Months Ended December 31	
	2007	2006
Cash flows from operating activities:		
Net earnings (loss)	$ 2,816	(1,381)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Net loss from discontinued operations, net of tax	5,089	30
Depreciation and amortization	5,702	3,490
Stock compensation expense	1,207	1,334
Changes in operating working capital	(5,006)	1,955
Effect of deferred taxes	7,223	(1,259)
Change in deferred revenue and costs, net	(7,593)	(2,278)
Other	171	(670)
Net cash provided by operating activities - continuing operations	9,609	1,221
Net loss from discontinued operations, net of tax	(5,089)	(30)
Net cash provided by discontinued opertaions	125	855
Net cash (used) provided by operating		

activities - discontinued operations	(4,964)	825
Net cash provided by operating activities	4,645	2,046
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(328,829)	-
Proceeds from sale of marketable securities	4,966	-
Additions to capitalized software	(5,574)	(8,344)
Capital expenditures - continuing operations	(4,503)	(1,975)
Net cash used by investing activities - continuing operations	(333,940)	(10,319)
Capital expenditures - discontinued operations	(1,126)	(812)
Proceeds from divestiture of business, net - discontinued operations	74,370	-
Net cash provided (used) by investing activities - discontinued operations	73,244	(812)
Net cash used by investing activities	(260,696)	(11,131)
Cash flows from financing activities:		
Proceeds from long-term debt	274,723	-
Principal payments on long-term debt	(9,723)	-
Debt issuance costs	(2,965)	-
Net decrease in short-term borrowings - discontinued operations	(2,844)	-
Excess tax benefit from stock options exercised	737	20
Other	1,179	(244)
Net cash provided by financing activities	261,107	264
Net increase (decrease) in cash and cash equivalents	5,056	(8,821)
Cash and cash equivalents, beginning of period	18,638	36,819
Cash and cash equivalents, end of period	$ 23,694	27,998

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements, in the opinion of management, include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required by accounting principles generally accepted in the United States of America (GAAP). For further information refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Certain 2007 amounts have been reclassified to conform with the 2008 presentation.

The Company's business is typically not impacted by seasonality, however, the results for the three-month period ended December 31, 2007 are not necessarily indicative of the results for the entire 2008 fiscal year.

As a result of the acquisition of Doble Engineering Company (Doble) in November 2007, the Company changed the name of the Communications segment to the Utility Solutions Group segment. The renaming of this segment more accurately describes the segment's operating activities and strategically aligns the respective operating entities to focus on a single goal of satisfying the expanding AMI, Smart Grid, and other operational requirements of electric, gas and water utilities worldwide. The name change was done in conjunction with the Company's strategic integration and rebranding of its AMI related technologies under the brand name Aclara, and renaming the businesses as follows: Distribution Control Systems, Inc. renamed Aclara Power-Line Systems Inc.; Hexagram, Inc. renamed Aclara RF Systems Inc.; and Nexus Energy Software, Inc. renamed Aclara Software Inc.

2. DIVESTITURE

On November 25, 2007, the Company completed the sale of the filtration portion of Filtertek Inc. (Filtertek) to Illinois Tool Works Inc. for $77.5 million in cash, subject to closing working capital adjustments. The Tek Packaging division of Filtertek was not included in the transaction. The Filtertek businesses are accounted for as discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the Filtertek businesses are reflected as discontinued operations in the financial statements and related notes for all periods presented. A pre-tax loss of $0.2 million related to the sale of Filtertek is reflected in the Company's fiscal 2008 first quarter results in discontinued operations. Filtertek's net sales were $13.7 million for the two-month period ended November 25, 2007 and $18.2 million for the three-month period ended December 31, 2006, respectively. Filtertek's operations were included within the Company's Filtration segment prior to divestiture. The operations of the Tek Packaging division are reflected in continuing operations and continue to be included in the Filtration segment.

The major classes of discontinued assets and liabilities included in the Consolidated Balance Sheet at September 30, 2007 are shown below (in thousands).

	September 30, 2007
Assets:	
Accounts receivable, net	$17,675
Inventories	11,986
Other current assets	6,009
Current assets	35,670
Net property, plant & equipment	28,084
Goodwill	24,709
Other assets	3,052
Total assets of Discontinued Operations	$91,515
Liabilities:	
Accounts payable	$ 8,908
Accrued expenses and other current liabilities	8,086
Current liabilities	16,994
Other liabilities	2,534
Total liabilities of Discontinued Operations	$19,528

3. ACQUISITIONS

Doble

On November 30, 2007, the Company acquired the capital stock of Doble for a purchase price of $319 million, net of cash acquired and subject to a working capital adjustment. Doble, headquartered in Watertown, Massachusetts, is a worldwide leader in providing high-end diagnostic test solutions for the electric utility industry. The acquisition aligns with the Company's long-term growth strategy of expanding its products and services in the utility industry. The acquisition was funded by a combination of the Company's existing cash, including the proceeds from the divestiture of Filtertek, and borrowings under a new $330 million credit facility led by National City Bank. The operating results for Doble, since the date of acquisition, are included within the Utility Solutions Group segment.

The acquisition was recorded by allocating the cost of completing the acquisition to the assets acquired, including identifiable intangible assets and liabilities assumed, based on their estimated fair values at the acquisition date pursuant to SFAS No. 141, "Business Combinations". The excess of the cost of the acquisition over the net amounts assigned to the fair value of the assets acquired and the liabilities assumed was recorded as goodwill. The allocation below is preliminary, as the final valuation of certain tangible and intangible assets and tax contingencies has not been completed.

The preliminary purchase price allocation is as follows:
(In thousands)

Net tangible assets		$ 42,854
Identifiable intangible assets:		
Trade Names	$ 75,720	
Customer relationships	54,210	
Software and databases	3,740	
Total identifiable intangible assets		133,670
Goodwill		214,341
Long-term deferred tax liabilities		(53,404)
Total cash consideration		$337,461

Reconciliation of purchase price:

Purchase price per agreement	$319,000
Add: cash acquired	9,639
Add: short-term marketable securities acquired	4,966
Add: transaction costs	2,574
Add: working capital adjustment, net	1,282
Total cash consideration	$337,461

The identifiable intangible assets consisting of customer relationships will be amortized on a straight-line basis over 20 years and the software and databases will be amortized on a straight-line basis over 5 years. The identifiable intangible asset consisting of trade names has an indefinite life and is not subject to amortization. The purchase price allocation is preliminary and is subject to finalization of purchase accounting which is

expected to be completed prior to September 30, 2008.

Pro Forma Results

The following pro forma financial information for the three months ended December 31, 2007 and 2006 presents the combined results of operations of ESCO and Doble as if the acquisition had occurred on October 1, 2006, respectively. The pro forma financial information for the periods presented excludes the Filtertek Inc. business which was sold on November 25, 2007. The combined results of operations have been adjusted for the impact of certain acquisition-related items, including additional amortization of identifiable intangible assets, additional financing expenses and other direct costs. The impact of pro forma adjustments are tax-effected at the expected future consolidated corporate tax rate.

The unaudited pro forma financial information is not intended to represent, or be indicative of, the Company's consolidated results of operations or financial condition that would have been reported had the acquisition been completed as of the beginning of each of the periods presented. This information is provided for illustrative purposes only and is not necessarily indicative of the Company's future consolidated results of operations or financial condition.

(In millions, except per share data)	Three Months ended December 31, 2007	2006
Net sales	$ 151.2	101.5
EBIT	16.2	1.5
Net earnings from continuing operations	$ 7.4	0.1
Net earnings per share		
Basic	$ 0.29	0.00
Diluted	$ 0.28	0.00

Other Acquisitions

In addition, during the first quarter of 2008, the Company acquired certain assets and liabilities related to two minor acquisitions for a total purchase price of $1 million.

All acquisitions have been accounted for by the purchase method and, accordingly, their results are included in the Company's consolidated financial statements from the respective dates of acquisition. Under the purchase price method, the purchase price is allocated based on the fair value of assets received and liabilities assumed as of the acquisition date.

4. EARNINGS PER SHARE (EPS)

Basic EPS is calculated using the weighted average number of common shares outstanding during the period. Diluted EPS is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options and

vesting of performance-accelerated restricted shares (restricted shares) by using the treasury stock method. The number of shares used in the calculation of earnings per share for each period presented is as follows (in thousands):

	Three Months Ended December 31,	
	2007	2006
Weighted Average Shares Outstanding - Basic	25,759	25,874
Dilutive Options and Restricted Shares	443	-
Adjusted Shares- Diluted	26,202	25,874

Options to purchase 592,046 shares of common stock at prices ranging from $35.69 - $54.88 and options to purchase 574,255 shares of common stock at prices ranging from $42.10 - $54.88 were outstanding during the three month periods ended December 31, 2007 and 2006, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares. The options expire at various periods through 2013. Approximately 55,000 restricted shares were excluded from the computation of diluted EPS based upon the application of the treasury stock method for the three-month period ended December 31, 2007.

5. SHARE-BASED COMPENSATION

The Company provides compensation benefits to certain key employees under several share-based plans providing for employee stock options and/or performance-accelerated restricted shares (restricted shares), and to non-employee directors under a non-employee directors compensation plan.

Stock Option Plans

The Company's stock option awards are generally subject to graded vesting over a three year service period. All outstanding options were granted at prices equal to fair market value at the date of grant. 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. Beginning with fiscal 2006 awards, the Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award. Prior to fiscal 2006, the Company calculated the pro forma compensation cost using the graded vesting method.

The fair value of each option award is estimated as of the date of grant using a Black-Scholes option pricing model. The weighted average assumptions for the periods indicated are noted below. Expected volatility is based on historical volatility of ESCO's stock calculated over the expected term of the option. The Company utilized historical, company data to develop its expected term assumption. For fiscal years 2006 and 2007, the expected term was calculated in accordance with Staff Accounting Bulletin No. 107 using the simplified method for "plain-vanilla" options. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the three month period ended December 31, 2007 and 2006, respectively: expected dividend yield of 0% in both periods; expected volatility of 34.8% and 27.2%; risk-free interest rate of 2.9% and 4.6%; and expected term of 3.8 and 3.5 years. Pre-tax compensation expense related to the stock option awards was $0.6 million and $0.6 million for the three-month periods ended December 31, 2007 and 2006, respectively.

Information regarding stock options awarded under the option plans is as follows:

	Shares	Weighted Avg. Price	Aggregate Intrinsic Value (in millions)	Weighted-Average Remaining Contractual Life
Outstanding at October 1, 2007	1,558,941	$30.35		
Granted	16,000	$35.82		
Exercised	(22,034)	$17.72	$ 0.5	
Cancelled	(49,742)	$44.84		
Outstanding at December 31, 2007	1,503,165	$30.12	$ 17.7	2.8 years
Exercisable at December 31, 2007	1,210,780	$26.46	$ 17.6	

The weighted-average grant-date fair value of options granted during the three-month periods ended December 31, 2007 and 2006 was $10.98 and $12.25, respectively.

Performance-accelerated Restricted Share Awards

The performance-accelerated restricted shares (restricted shares) vest over five years with accelerated vesting if certain performance targets are achieved. In these cases, if it is probable that the performance condition will be met, the Company recognizes compensation cost on a straight-line basis over the shorter performance period; otherwise, it will recognize compensation cost over the longer service period. Compensation cost for the majority of the outstanding restricted share awards is being recognized over the longer performance period as it is not probable the performance condition will be met. The restricted share award grants were valued at the stock price on the date of grant. Pre-tax compensation expense related to the restricted share awards was $0.4 million and $0.5 million for the three-month periods ended December 31, 2007 and 2006, respectively.

The following summary presents information regarding outstanding restricted share awards as of December 31, 2007 and changes during the three-month period then ended:

	Shares	Weighted Avg. Price

Nonvested at October 1, 2007	164,060	$41.77
Granted	87,985	$36.94
Cancelled	(8,000)	$41.74
Nonvested at December 31, 2007	244,045	$40.03

Non-Employee Directors Plan

Pursuant to the non-employee directors compensation plan, each non-employee director receives a retainer of 800 common shares per quarter. Pre-tax compensation expense related to the non-employee director grants was $0.2 million and $0.2 million for the three-month periods ended December 31, 2007 and 2006, respectively.

The total share-based compensation cost that has been recognized in results of operations and included within SG&A was $1.2 million and $1.3 million for the three-month periods ended December 31, 2007 and 2006, respectively. The total income tax benefit recognized in results of operations for share-based compensation arrangements was $0.3 million and $0.4 million for the three-month periods ended December 31, 2007 and 2006, respectively. As of December 31, 2007, there was $12.7 million of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.9 years.

6. INVENTORIES

Inventories from continuing operations consist of the following (in thousands):

	December 31, 2007	September 30, 2007
Finished goods	$ 23,748	17,652
Work in process, including long- term contracts	15,861	13,532
Raw materials	33,541	24,701
Total inventories	$ 73,150	55,885

7. COMPREHENSIVE INCOME

Comprehensive income (loss) for the three-month periods ended December 31, 2007 and 2006 was $3.8 million and $(0.4) million, respectively. For the three-month periods ended December 31, 2007 and 2006, the Company's comprehensive income was positively impacted by foreign currency translation adjustments of $1.2 million and $1.0 million, respectively and negatively impacted by interest rate swaps of $0.2 million and zero, respectively.

8. BUSINESS SEGMENT INFORMATION

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company operates in three segments: Utility Solutions Group (formerly the Communications segment), Test and Filtration/Fluid Flow (Filtration). As a result of the acquisition of Doble in November 2007, the Company changed the name of the Communications segment to the Utility Solutions Group segment. The renaming

of this segment more accurately describes the segment's operating activities and strategically aligns the respective operating entities to focus on a single goal of satisfying the expanding AMI, Smart Grid, and other operational requirements of electric, gas and water utilities worldwide. The change in segment name was made in conjunction with the Company's strategic integration and rebranding of its AMI related technologies under the brand name Aclara, and renaming the businesses as follows: Distribution Control Systems, Inc. renamed Aclara Power-Line Systems Inc.; Hexagram, Inc. renamed Aclara RF Systems Inc.; and Nexus Energy Software, Inc. renamed Aclara Software Inc. In addition to the AMI busineses known as Aclara, the Utility Solutions Group also includes Comtrak and Doble Engineering Company (Doble). Doble provides high-end, diagnostic test solutions for the electric power delivery industry.

As a result of the divestiture of Filtertek in November 2007, the Company re-evaluated the aggregation criteria of its remaining operating units within the Filtration segment. The Tek Packaging business (formerly a division of Filtertek) was not included in the divestiture transaction. Prior to the divestiture of Filtertek, each of the components of the Filtration segment were presented separately due to differing long-term economics. However, as a result of the divestiture of Filtertek, management believes the remaining companies within the Filtration segment now have similar long-term economics and, therefore, will not be presented separately beginning with the first quarter of 2008. The Filtration segment's operations consist of: PTI Technologies Inc., VACCO Industries and Tek Packaging.

Test segment operations represent the EMC Group, consisting primarily of ETS-Lindgren L.P. (ETS) and Lindgren R.F. Enclosures, Inc. (Lindgren). The EMC Group is principally involved in the design and manufacture of EMC test equipment, test chambers, and electromagnetic absorption materials.

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

(In thousands)	Three Months ended December 31,	
NET SALES	2007	2006
Utility Solutions Group	$ 79,309	30,034
Test	32,065	28,202
Filtration	23,583	22,351
Consolidated totals	$134,957	80,587
EBIT		
Utility Solutions Group	$ 13,408	(2,782)
Test	1,990	2,143
Filtration	3,649	1,682
Corporate	(4,995)	(4,565)
Consolidated EBIT	14,052	(3,522)
Add: Interest (expense)/income	(1,359)	321

Earnings (loss) before income taxes	$ 12,693	(3,201)
IDENTIFIABLE ASSETS		
Utility Solutions Group	$188,677	99,921
Test	76,313	52,407
Filtration	55,723	55,966
Reconciliation to consolidated totals (Corporate assets)	551,671	271,218
Consolidated totals	$872,384	479,512

9. DEBT

The Company's debt is summarized as follows:

(In thousands)	December 31, 2007	September 30, 2007
Revolving credit facility, including current portion	$265,000	-
Current portion of long-term debt	30,000	-
Total long-term debt, less current portion	$235,000	-

On November 30, 2007, in conjunction with the acquisition of Doble, the Company entered into a new $330 million five-year revolving credit facility with a $50 million increase option. This facility replaces the Company's $100 million credit facility that would have otherwise matured in October 2009. The facility is available for direct borrowings and/or the issuance of letters of credit. It is provided by a group of sixteen banks, led by National City Bank as agent, with a maturity of November 30, 2012.

At December 31, 2007, the Company had approximately $65 million available to borrow under the credit facility in addition to $23.7 million cash on hand. At December 31, 2007, the Company had $265 million of outstanding borrowings under the credit facility and outstanding letters of credit of $3.6 million ($2.7 million outstanding under the credit facility). The Company classified $30 million as current portion on long-term debt as of December 31, 2007, as the Company intends to repay this amount within the next twelve months.

The new credit facility requires, as determined by certain financial ratios, a facility fee ranging from 15-25 basis points per annum on the revolving line of credit. 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 a leverage ratio and an interest coverage ratio.

10. INCOME TAX EXPENSE

The first quarter of 2008 effective income tax rate for continuing operations was 37.7% compared to a benefit of 57.8% in the first quarter of 2007. The first quarter 2007 income tax benefit was favorably impacted by a

$0.9 million, net, research tax credit, reducing the 2007 first quarter effective income tax rate by 27.9%. The first quarter 2007 rate was unfavorably impacted by 8.5% due to additional state and foreign tax liabilities and by 1.9% due to non-deductible stock option expense related to foreign optionees. The Company estimates the fiscal 2008 tax rate to be approximately 38%, excluding the effect of discontinued operations.

Effective October 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." FIN 48 provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 had the following impact on the Company's financial statements: decreased current assets by $1.5 million, decreased current liabilities by $0.3 million, and decreased long-term liabilities by $1.2 million. As of October 1, 2007, the Company had $6.7 million of unrecognized tax benefits of which $5.9 million, if recognized, would affect the Company's effective tax rate. The Company made no adjustments to retained earnings related to the adoption.

In addition to the adjustments recorded as of October 1, 2007 with respect to the adoption of FIN 48, the Company recorded an increase of $5.8 million in its unrecognized tax benefits in the current period. The Company anticipates a $0.3 million reduction in the amount of unrecognized tax benefits in the next twelve months as a result of a lapse of the applicable statute of limitations. The Company's policy is to include interest related to unrecognized tax benefits in income tax expense and penalties in operating expense. As of October 1, 2007, the Company had accrued interest related to uncertain tax positions of $0.1 million, net of federal income tax benefit, on its consolidated balance sheet. No penalties have been accrued due to the Company's net operating loss position.

The principal jurisdictions for which the Company files income tax returns are U.S. federal and the various city, state, and international locations where the Company has operations. Due to the Company's available net operating loss, the 1995 through 2006 U.S. federal tax years remain subject to income tax examinations. Various state years from 2003 through 2006 remain subject to income tax examinations. The Company is subject to income tax in many jurisdictions outside the United States, none of which are individually material to the Company's financial position, statement of cash flows, or results of operations.

11. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill attributable to each business segment from continuing operations for the three-month period ended December 31, 2007 are presented in the table below.

(In millions)	Utility Solutions Group	Filtration	Test	Total
Balance as of September 30, 2007	$ 75.4	20.3	29.1	124.8
Acquisitions	214.5	-	0.4	214.9
Balance as of December 31, 2007	$289.9	20.3	29.5	339.7

The following table presents the gross carrying amount and accumulated amortization of identifiable intangible assets, other than goodwill, at the dates presented:

	December 31, 2007			September 30, 2007		
	Gross Carrying Amt	Accum Amort	Net	Gross Carrying Amt	Accum Amort	Net
Amortized intangible assets:						
Customer relationships	$54.2	$0.2	$54.0	$0.0	$0.0	$0.0
Capitalized software	$89.4	$16.3	$73.1	$79.0	$13.6	$65.4
Patents & other	$19.9	$18.3	$1.6	$23.3	$17.6	$5.7
Unamortized intangible assets:						
Trade Names	$79.2	$0.0	$79.2	$3.5	$0.0	$3.5
Total other intangible assets	$242.7	$34.8	$207.9	$105.8	$31.2	$74.6

Amortization of intangible assets for the three-month periods ended December 31, 2007 and 2006, was $3.6 million and $2.0 million, respectively. Amortization of intangible assets for fiscal years 2008 through 2012 is estimated at approximately $17 million to $22 million per year. The increase in intangible asset amortization is related to the TWACS NG software.

12. RETIREMENT PLANS

A summary of net periodic benefit expense for the Company's defined benefit plans for the three-month periods ended December 31, 2007 and 2006 is shown in the following table. Net periodic benefit cost for each period presented is comprised of the following:

(In thousands)	Three Months Ended December 31, 2007	2006
Defined benefit plans		
Interest cost	$713	688
Expected return on assets	(738)	(700)
Amortization of:		
Prior service cost	4	2
Actuarial loss	86	98
Net periodic benefit cost	$ 65	88

13. DERIVATIVE FINANCIAL INSTRUMENTS

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. The Company is exposed to market risk related to changes in interest rates

and selectively uses derivative financial instruments, including forward contracts and swaps, to manage these risks. During the first quarter of 2008, the Company entered into a two-year amortizing interest rate swap to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. The swap notional amount for the first year is $175 million amortizing to $100 million in the second year. All derivative instruments are reported on the balance sheet at fair value. The derivative instrument is designated as a cash flow hedge and the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. Including the impact of interest rate swaps outstanding, the interest rates on approximately 66% of the Company's total borrowings were effectively fixed as of December 31, 2007.

The following is a summary of the notional transaction amounts and fair values for the Company's outstanding derivative financial instruments by risk category and instrument type, as of December 31, 2007.

(In thousands)	Notional Amount	Average Receive Rate	Average Pay Rate	Fair Value
Interest rate swaps	$175,000	5.25%	3.99%	($183)

14. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109." This Interpretation is effective for the Company beginning October 1, 2007. This Interpretation prescribes a recognition threshold and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted the provisions of this Interpretation during the first quarter of 2008 and recorded no adjustments to retained earnings related to the adoption.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material impact to the Company's financial position or results of operations.

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

RESULTS OF OPERATIONS

As a result of the acquisition of Doble Engineering Company (Doble) in November 2007, the Company changed the name of the Communications segment to the Utility Solutions Group segment. The name change was done in conjunction with the Company's strategic integration and rebranding of its AMI related technologies under the brand name Aclara, and renaming the businesses as follows: Distribution Control Systems, Inc. renamed Aclara Power-Line Systems Inc.; Hexagram, Inc. renamed Aclara RF Systems Inc.; and Nexus Energy Software, Inc. renamed Aclara Software Inc.

The following discussion refers to the Company's results from continuing operations, except where noted. The Filtertek businesses (excluding Tek Packaging) are accounted for as discontinued operations in accordance with SFAS

No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the Filtertek businesses are reflected as discontinued operations in the financial statements and related notes for all periods shown. References to the first quarters of 2008 and 2007 represent the fiscal quarters ended December 31, 2007 and 2006, respectively.

NET SALES

Net sales increased $54.4 million, or 67.5%, to $135.0 million for the first quarter of 2008 from $80.6 million for the first quarter of 2007. Net sales increased across all segments in the first quarter of 2008 compared to the prior year quarter, with the most significant increase in the Utility Solutions Group segment of $49.3 million.

-Utility Solutions Group

Net sales increased $49.3 million, or 164.3%, to $79.3 million for the first quarter of 2008 from $30.0 million for the first quarter of 2007. The sales increase in the first quarter of 2008 as compared to the prior year quarter was primarily due to: an increase in sales of $42.8 million from the Aclara Group (consisting of Aclara Power-Line Systems Inc., Aclara RF Systems Inc. and Aclara Software; an increase of $9.4 million of sales relating to the Doble acquisition (representing sales for the month of December); partially offset by a $2.9 million decrease in sales from Comtrak due to the timing of product deliveries.

The increase in sales of $42.8 million from the Aclara Group in the first quarter of 2008 as compared to the prior year quarter was mainly due to: a $31.6 million increase in sales from Aclara Power-Line Systems Inc. (of which $20.5 million represented the cumulative effect of the hardware shipments to date as TWACS NG(trademark) 3.0 software was delivered to PG&E in December 2007) and a $10.1 million increase in sales to electric utility cooperative (COOP) and public power (Municipal) customers; an $11.0 million increase in sales from Aclara RF Systems Inc. mainly due to an $8.9 million increase in shipments to PG&E for the gas deployment and a $1.2 million increase related to the Kansas City water project.

-Test

For the first quarter of 2008, net sales of $32.1 million were $3.9 million, or 13.7% higher than the $28.2 million of net sales recorded in the first quarter of 2007. The sales increase in the first quarter of 2008 as compared to the prior year quarter was mainly due to: a $2.1 million increase in net sales from the Company's U.S. operations driven by project milestones on a large aircraft chamber and completion of other test chambers; a $0.9 million and $0.7 million increase in net sales volume from the Company's European and Asian operations, respectively.

-Filtration

Net sales increased $1.2 million, or 5.4%, to $23.6 million for the first quarter of 2008 from $22.4 million for the first quarter of 2007. The sales increase during the fiscal quarter ended December 31, 2007 as compared to the prior year quarter was mainly due to: a $1.3 million increase in commercial aerospace shipments at PTI; a sales increase of $0.3 million at VACCO driven by higher defense spares and the acquisition of Wintec; partially offset by a $0.4 million decrease in sales at Tek Packaging.

ORDERS AND BACKLOG

Backlog from continuing operations was $253.0 million at December 31, 2007 compared with $257.6 million at September 30, 2007. The Company received new

orders totaling $130.4 million in the first quarter of 2008 compared to $126.6 million in the prior year quarter. New orders of $67.3 million were received in the first quarter of 2008 related to Utility Solutions Group products (including $7.0 million of Doble acquired backlog), $33.3 million related to Test products, and $29.8 million related to Filtration products. In December 2007, the Company signed a contract with the Puerto Rico Electric Power Authority (PREPA) for a total value expected to be $27 million for the purchase of Aclara Power-Line Systems meter modules and associated substation equipment to be released through the placement of purchase orders over the next two-and-a-half years. During the first quarter of 2008, the Company recorded approximately $2 million in entered orders related to this contract.

See "CAPITAL RESOURCES AND LIQUIDITY - Pacific Gas & Electric" below for a discussion of PG&E contracts. The Company received orders totaling $14.2 million from PG&E under these agreements during the first quarter of fiscal 2008.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets was $3.6 million and $2.0 million for the three-month periods ended December 31, 2007 and 2006, respectively. Amortization of intangible assets for the three-month periods ended December 31, 2007 and 2006, included $0.7 million and $0.7 million, respectively, of amortization of acquired intangible assets related to recent acquisitions. The amortization of these acquired intangible assets are included in Corporate's operating results, see "EBIT - Corporate". The remaining amortization expenses consist of other identifiable intangible assets (primarily software, patents and licenses). During the three-month periods ended December 31, 2007 and 2006, the Company recorded $2.3 million and $0.9 million, respectively, of amortization related to Aclara Power-Line Systems TWACS NG software.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses for the first quarter of 2008 were $33.5 million (24.8% of net sales), compared with $26.6 million (33.0% of net sales) for the prior year quarter. The increase in SG&A spending in the fiscal quarter ended December 31, 2007 as compared to the prior year quarter was primarily due to: a $2.5 million increase in SG&A at Aclara Power-Line Systems mainly due to an increase in sales, marketing, and engineering headcount; $2.4 million of SG&A expenses related to Doble; a $0.6 million increase in SG&A at Aclara Software; and a $0.5 million increase in SG&A at Aclara RF Systems.

OTHER (INCOME) AND EXPENSES, NET

Other (income) and expenses, net, was $(0.2) million and $(0.6) million for the three-month periods ended December 31, 2007 and 2006, respectively. The principal components of other (income) and expenses, net, for the first quarter of 2008 included $0.3 million of life insurance proceeds related to a former defense subsidiary. The principal components of other (income) and expenses, net, for the first quarter of 2007 included $0.6 million of royalty income.

EBIT

The Company evaluates the performance of its operating segments based on EBIT, defined below. EBIT was $13.9 million (10.3% of net sales) for the first quarter of 2008 and a loss of $(3.5) million (4.4% of net sales) for the first quarter of 2007. The increase in EBIT for the first quarter of 2008 as compared to the prior year quarter is primarily due to the increase in margins in the Utility Solutions Group segment including the acquisition of Doble.

This Form 10-Q contains the financial measure "EBIT", which is not calculated in accordance with generally accepted accounting principles in the United States of America (GAAP). EBIT provides investors and Management with an alternative

method for assessing the Company's operating results. The Company defines "EBIT" as earnings from continuing operations before interest and taxes. Management evaluates the performance of its operating segments based on EBIT and believes that EBIT is useful to investors to demonstrate the operational profitability of the Company's business segments by excluding interest and taxes, which are generally accounted for across the entire Company on a consolidated basis. EBIT is also one of the measures Management uses to determine resource allocations within the Company and incentive compensation. The following table presents a reconciliation of EBIT to net earnings from continuing operations.

(In thousands)	Three Months ended December 31,	
	2007	2006
Consolidated EBIT	$14,052	(3,522)
Less: Interest (expense)	(1,359)	-
Add: interest income	-	321
Less: Income tax expense	(4,788)	-
Add: Income tax benefit	-	1,850
Net earnings (loss) from continuing operations	$7,905	(1,351)

-Utility Solutions Group

EBIT in the first quarter of 2008 was $13.4 million (16.9% of net sales) compared to $(2.8) million (9.3% of net sales) in the prior year quarter. The increase in EBIT in the first quarter of 2008 was due to: an $18.0 million increase in EBIT from the Aclara Group related to the increased sales volumes (of which approximately $9 million related to the cumulative revenue catch-up for PG&E from Aclara Power-Line Systems) and the EBIT contribution from Doble; partially offset by a $1.7 million decrease in EBIT at Comtrak due to lower sales volumes.

-Test

EBIT in the first quarter of 2008 was $2.0 million (6.2% of net sales) as compared to $2.1 million (7.4% of net sales) in the prior year quarter. EBIT decreased $0.1 million over the prior year quarter due to the timing of sales and product mix.

-Filtration

EBIT was $3.6 million (15.3% of net sales) and $1.7 million (7.6% of net sales) in the first quarters of 2008 and 2007, respectively. For the first quarter of 2008 as compared to the prior year quarter, EBIT increased $1.9 million due to: a $1.6 million increase at PTI due to higher commercial aerospace shipments; a $0.5 million increase at VACCO resulting from increased sales volumes; partially offset by a $0.2 million decrease at Tek Packaging.

-Corporate

Corporate costs included in EBIT were $5.0 million and $4.6 million for the three-month periods ended December 31, 2007 and 2006, respectively. The increase in Corporate costs in the first quarter of 2008 as compared to the prior year quarter was mainly due to: a $0.4 million decrease in royalty income. In the first quarter of 2008, Corporate costs included $1.2 million of pre-tax stock compensation expense and $0.7 million of pre-tax amortization of acquired intangible assets.

INTEREST EXPENSE (INCOME), NET

Interest expense was $1.4 million for the first quarter of 2008 compared to interest income of $0.3 million in the prior year quarter. The increase in interest expense in the first quarter of 2008 as compared to the prior year quarter is due to the outstanding borrowings under the revolving credit facility related to the Doble acquisition.

INCOME TAX EXPENSE

The first quarter of 2008 effective income tax rate for continuing operations was 37.7% compared to a benefit of 57.8% in the first quarter of 2007. The first quarter 2007 income tax benefit was favorably impacted by a $0.9 million, net, research tax credit, reducing the 2007 first quarter effective income tax rate by 27.9%. The first quarter 2007 rate was unfavorably impacted by 8.5% due to additional state and foreign tax liabilities and by 1.9% due to non-deductible stock option expense related to foreign optionees. The Company estimates the fiscal 2008 tax rate to be approximately 38%, excluding the effect of discontinued operations.

Effective October 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." FIN 48 provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. The Company recorded a $5.8 million increase in its unrecognized tax benefits in the current period.

CAPITAL RESOURCES AND LIQUIDITY

Working capital (current assets less current liabilities) decreased to $118.4 million at December 31, 2007 from $141.2 million at September 30, 2007. Accounts receivable increased by $11.0 million and inventories increased by $17.3 million in the first quarter of 2008 primarily related to acquisition of Doble. Accounts payable decreased by $12.4 million in the first quarter of 2008, of which approximately $6.0 million related to the Utility Solutions Group segment and $3.3 million related to the Test segment, both due to timing of vendor invoicing.

Net cash provided by operating activities from continuing operations was $9.6 million and $1.2 million for the three-month periods ended December 31, 2007 and 2006, respectively.

Capital expenditures from continuing operations were $4.5 million and $2.0 million in the first quarter of fiscal 2008 and 2007, respectively. The increase in the first quarter of 2008 as compared to the prior year quarter included approximately $2 million for the ETS Cedar Park facility expansion.

At December 31, 2007, intangible assets, net, of $207.9 million included $69.4 million of capitalized software. Approximately $58.8 million of the capitalized software balance represents software development costs on the TWACS NG software within the Utility Solutions Group segment to further penetrate the IOU market. This software is being deployed to efficiently handle the additional levels of communications dictated by the size of the utility service territories and the frequency of meter reads that are required under time-of-use or critical peak pricing scenarios to meet the requirements of large IOUs. Amortization expense of TWACS NG software is on a straight-line basis over seven years and began in March 2006. The Company recorded $2.3 million and $0.9 million in amortization expense related to TWACS NG in the first quarter of 2008 and 2007, respectively.

Divestiture

On November 25, 2007, the Company completed the sale of the filtration portion of Filtertek Inc. (Filtertek) to Illinois Tool Works Inc. for $77.5 million in cash, subject to closing working capital adjustments. The Tek Packaging division of Filtertek was not included in the transaction. The Filtertek businesses are accounted for as discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the Filtertek businesses are reflected as discontinued operations in the financial statements and related notes for all periods presented. A pre-tax loss of $0.2 million related to the sale of Filtertek is reflected in the Company's fiscal 2008 first quarter results in discontinued operations. Filtertek's net sales were $13.7 million for the two-month period ended November 25, 2007 and $18.2 million for the three-month period ended December 31, 2006, respectively. The operations of the Tek Packaging division are reflected in continuing operations. The closure and relocation of the Filtertek Puerto Rico facility was completed in March 2004. The Puerto Rico facility is included in current assets from discontinued operations with a carrying value of $1.1 million at December 31, 2007. During the first quarter of 2008, the Company recorded a $2.5 million write-down to reduce the carrying value to its expected net realizable value. The charge is included in the loss on sale of discontinued operations for the quarter ended December 31, 2007.

Acquisitions

On November 30, 2007, the Company acquired the capital stock of Doble for a purchase price of approximately $319 million, net of cash acquired and subject to a working capital adjustment. Doble, headquartered in Watertown, Massachusetts, is a worldwide leader in providing high-end diagnostic test solutions for the electric utility industry. The acquisition aligns with the Company's long-term growth strategy of expanding its products and services in the utility industry. The acquisition was funded by a combination of the Company's existing cash, including the proceeds from the partial divestiture of Filtertek, and borrowings under a new $330 million credit facility led by National City Bank. Doble's annual revenue for the trailing twelve months ended September 30, 2007 was approximately $80 million. The operating results for Doble, since the date of acquisition, are included within the Utility Solutions Group segment. The Company recorded approximately $214 million of goodwill and $76 million of trade names as a result of transaction, subject to post-closing adjustments including finalization of purchase accounting. The Company also recorded $58 million of identifiable intangible assets consisting primarily of customer relationships and software/databases which will be amortized on a straight-line basis over periods ranging from five years to twenty years. The post-closing purchase accounting items are expected to be completed prior to September 30, 2008.

Other Acquisitions

In addition, during the first quarter of 2008, the Company acquired certain assets and liabilities related to two minor acquisitions for a total purchase price of $1 million.

Credit facility

On November 30, 2007, in conjunction with the acquisition of Doble, the Company entered into a new $330 million five-year revolving credit facility with a $50 million increase option. This facility replaces the Company's $100 million credit facility that would have otherwise matured in October 2009. The facility is available for direct borrowings and/or the issuance of letters of credit. It is provided by a group of sixteen banks, led by National City Bank as agent, with a maturity of November 30, 2012.

At December 31, 2007, the Company had approximately $65 million available to borrow under the credit facility in addition to $23.7 million cash on hand. At December 31, 2007, the Company had $265 million of outstanding borrowings under the credit facility and outstanding letters of credit of $3.6 million ($2.7 million outstanding under the credit facility). The Company classified $30 million as current portion on long-term debt as of December 31, 2007, as the Company intends to repay this amount within the next twelve months. Cash flow from operations and borrowings under the Company's bank credit facility are expected to meet the Company's capital requirements and operational needs for the foreseeable future.

Pacific Gas & Electric

Aclara Power-Line Systems Inc. (formerly known as Distribution Control Systems Inc.) delivered the final software version (TWACS NG 3.0) to PG&E in December 2007 and, as a result, recognized deferred revenue of $20.5 million during the first quarter of 2008. The parties continue to negotiate an amendment to the current contract to conform to the parties' performance. Testing of Aclara RF Systems Inc.'s (formerly known as Hexagram Inc.) RF electric solution by PG&E began in the fiscal fourth quarter of 2007 and continues. PG&E has not yet announced what changes, if any, will be made to its AMI project plan, and therefore, the Company continues to be unable to estimate the timing or value of orders that may be received under the Company's PG&E contracts. Refer to "Pacific Gas & Electric" in "Management's Discussion and Analysis" appearing in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007 for further discussion about the Company's contracts with PG&E.

CRITICAL ACCOUNTING POLICIES

Management has evaluated the accounting policies used in the preparation of the Company's financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by Management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving Management judgments and estimates may be found in the Critical Accounting Policies section of Management's Discussion and Analysis and in Note 1 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007 at Exhibit 13.

OTHER MATTERS

Contingencies

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109." This Interpretation is effective for the Company beginning October 1, 2007. This Interpretation prescribes a recognition threshold and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted the provisions of this

Interpretation during the first quarter of 2008 and recorded no adjustments to retained earnings related to the adoption.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material impact to the Company's financial position or results of operations.

FORWARD LOOKING STATEMENTS

Statements in this report that are not strictly historical are "forward looking" statements within the meaning of the safe harbor provisions of the federal securities laws. Forward looking statements include, but are not limited to, those relating to the estimates or projections made in connection with the Company's accounting policies, completion of Doble purchase price allocation, timing and amount of repayment of debt, annual effective tax rate, the reduction in the amount of unrecognized tax benefits over the next twelve months, outcome of current claims and litigation, future cash flow, capital requirements and operational needs for the foreseeable future, and the ultimate values and timing of revenues under the Aclara Power-Line Systems / PREPA contract. Investors are

cautioned that such statements are only predictions, and speak only as of the date of this report. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to: the risk factors described in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007, actions by PG&E's Board of Directors and PG&E's management impacting PG&E's AMI projects, changes to PG&E's AMI project plan resulting from the evaluation of other AMI vendor technologies or other factors; the Company's successful performance under the PG&E contracts; weakening of economic conditions in served markets; changes in customer demands or customer insolvencies; competition; intellectual property rights; successful execution of the planned sale of the Company's Puerto Rico facility; material changes in the costs of certain raw materials including steel and copper; delivery delays or defaults by customers; termination for convenience of customer contracts; timing and magnitude of future contract awards; performance issues with key suppliers, customers and subcontractors; collective bargaining and labor disputes; changes in laws and regulations including changes in accounting standards and taxation requirements; costs relating to environmental matters; litigation uncertainty; and the Company's successful execution of internal operating plans and integration of newly acquired businesses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. The Company is exposed to market risk related to changes in interest rates and selectively uses derivative financial instruments, including forward contracts and swaps, to manage these risks. During the first quarter of 2008, the Company entered into a two-year amortizing interest rate swap to hedge some of its exposure to variability in future LIBOR-based interest payments on variable rate debt. The swap notional amount for the first year is $175 million amortizing to $100 million in the second year. All derivative instruments are reported on the balance sheet at fair value. The derivative instrument is designated as a cash flow hedge and the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. Including the impact of interest rate swaps outstanding, the interest rates on approximately 66% of the Company's total borrowings were

effectively fixed as of December 31, 2007.

The following is a summary of the notional transaction amounts and fair values for the Company's outstanding derivative financial instruments by risk category and instrument type, as of December 31, 2007.

(In thousands)	Notional Amount	Average Receive Rate	Average Pay Rate	Fair Value
Interest rate swaps	$175,000	5.25%	3.99%	($183)

In addition, the Company pays 100bps spread on its outstanding debt. Refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007 for further discussion about market risk.

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

The discussion of risk factors in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007 refers to the Company's Communications segment and to its subsidiaries DCSI (Distribution Controls Systems, Inc.) and Hexagram (Hexagram, Inc.). As a result of the acquisition of Doble in November 2007, the Company changed the name of the Communications segment to the Utility Solutions Group segment. The name change was done in conjunction with the Company's strategic integration and rebranding of its AMI related technologies under the brand name Aclara, and renaming the businesses as follows: Distribution Control Systems, Inc. renamed Aclara Power-Line Systems Inc.; Hexagram, Inc. renamed Aclara RF Systems Inc.; and Nexus Energy Software, Inc. renamed Aclara Software Inc.

ITEM 6. EXHIBITS

a) Exhibits

Exhibit Number		
2.1	Stock Purchase and Sale	Incorporated by reference to

	Agreement dated as of November 6, 2007 by and among ESCO Technologies Holding Inc. and ESCO Technologies Inc., Doble Engineering Company and the Stockholders of Doble Engineering Company	Current Report on Form 8-K dated November 6, 2007 at Exhibit 2.1
2.2	Stock Purchase Agreement dated as of November 25, 2007 by and among ESCO Technologies Holding Inc. and ESCO Technologies Inc. and Illinois Tool Works Inc.	Incorporated by reference to Current Report on Form 8-K dated November 25, 2007 at Exhibit 2.1
3.1	Restated Articles of Incorporation	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 1999, at Exhibit 3(a)
3.2	Amended Certificate of Designation Preferences and Rights of Series A Participating Cumulative Preferred Stock of the Registrant	Incorporated by reference to Form 10-Q for the fiscal quarter ended March 31, 2000, at Exhibit 4(e)
3.3	Articles of Merger effective July 10, 2000	Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2000, at Exhibit 3(c)
3.4	Bylaws, as amended and restated as of July 10, 2000.	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2003, at Exhibit 3.4
3.5	Amendment to Bylaws effective as of February 2, 2007.	Incorporated by reference to Form 10-Q for the fiscal quarter ended December 31, 2006, at Exhibit 3.5
3.6	Amendment to Bylaws effective as of November 9, 2007.	Incorporate by reference to Current Report on Form 8-K dated November 12, 2007 at Exhibit 3.1
4.1	Specimen Common Stock Certificate	Incorporated by reference to Form 10-Q for the fiscal quarter ended June 30, 2000, at Exhibit 4(a)
4.2	Specimen Rights Certificate	Incorporated by reference to Current Report on Form 8-K dated February 3, 2000, at Exhibit B to Exhibit 4.1

4.3	Rights Agreement dated as of September 24, 1990 (as amended and Restated as of February 3, 2000) between the Registrant and Registrar and Transfer Company, as successor Rights Agent	Incorporated by reference to Current Report on Form 8-K dated February 3, 2000, at Exhibit 4.1
4.4	Credit Agreement dated as of November 30, 2007 among the Registrant, National City Bank and the lenders from time to time parties thereto	Incorporated by reference to Current Report on Form 8-K dated November 30, 2007, at Exhibit 4.1
10.1	Third Amendment to Directors' Extended Compensation Plan effective October 3, 2007	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at Exhibit 10.43
10.2	Second Amendment to 2004 Incentive Compensation Plan effective October 3, 2007	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at Exhibit 10.44
10.3	Third Amendment to 2001 Stock Incentive Plan effective October 3, 2007	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at Exhibit 10.45
10.4	First Amendment to Incentive Compensation Plan for Executive Officers effective October 3, 2007	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at Exhibit 10.46
10.5	Amendment to 1999 Stock Option Plan effective October 3, 2007	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at Exhibit 10.47
10.6	Amendment to Severance Plan effective October 3, 2007	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at Exhibit 10.48
10.7	Amendment to Performance Compensation Plan effective October 3, 2007	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at Exhibit 10.49
10.8	Amendment to Compensation Plan for Non-Employee Directors effective October 3, 2007	Incorporated by reference to Form 10-K for the fiscal year ended September 30, 2007, at Exhibit 10.50

10.9	Third Amendment to Employment Agreement dated as of December 31, 2007 between the Registrant and Victor L. Richey, Jr.*	Incorporated by reference to Current Report on Form 8-K dated December 31, 2007 at Exhibit 10.1
31.1	Certification of Chief Executive Officer relating to Form 10-Q for period ended December 31, 2007	
31.2	Certification of Chief Financial Officer relating to Form 10-Q for period ended December 31, 2007	
32	Certification of Chief Executive Officer and Chief Financial Officer relating to Form 10-Q for period ended December 31, 2007	

* Identical Amendments to Employment Agreements between the Registrant and executive officers A.S. Barclay and G.E. Muenster, except that (i) the termination amounts payable under Paragraph 9.a(1) are equal to base salary for 12 months, and (ii) under Paragraph 9.a(1)(B), such termination amounts may be paid in biweekly installments equal to 1/26th of such amounts

SIGNATURE

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

ESCO TECHNOLOGIES INC.

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

Dated: February 11, 2008