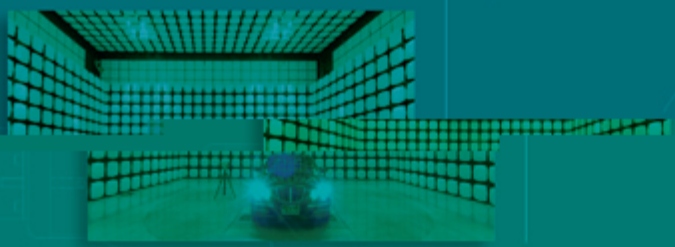
ESCO TECHNOLOGIES INC. 2011 ANNUAL REPORT



UTILITY SOLUTIONS

The Utility Solutions Group enhances utility performance, delivering critical data and transforming it into actionable intelligence for both utilities and the customers we serve. Aclara's proven technologies provide robust networks and

enterprise data management, data analytics and efficiency tools that allow utilities and consumers to better manage their resources. Doble is the benchmark for diagnostic test instruments, consulting and testing services with a knowledge base that spans nearly 100 years.

FILTRATION/FLUID FLOW

PTI Technologies Inc., VACCO Industries and Crissair Inc. design and manufacture highly engineered filtration and fluid flow products. We provide value-added solutions to technically demanding customers across the aviation, space, defense

and industrial markets. These highly engineered products are provided directly to OEMs or as line replaceable units for commercial and military aircraft, U.S. Navy submarines, space launch vehicles, satellites, as well as various medical and industrial applications.

RF SHIELDING & TEST

ETS-Lindgren is the industry leader in providing RF Shielding and Test customers with innovative solutions for the detection, measurement and management of electromagnetic, magnetic and acoustic energy. In the growing consumer electronics market, ETS-

Lindgren serves the testing needs of hundreds of global manufacturers by providing solutions that verify product compliance with industry and government standards. Our market leadership and global presence make it ideally positioned to meet new customer demand well into the future.

We are pleased with the way we ended 2011 as we closed out the year at the top end of our projected sales and EPS ranges. At the start of the year, we expected sales and EPS growth between 10 and 15 percent, and we delivered on our commitments as sales increased 14 percent, and EPS increased 16 percent compared to 2010.

Considering the challenges faced in today's global economy, and the fact that two of our largest and most profitable AMI contracts were nearing completion, we were still able to deliver record sales and earnings in 2011. Our sales growth, despite these challenges, further validated our three segment business strategy as Filtration sales increased 39 percent, Test sales increased 28 percent, and Utility Solutions Group sales increased slightly.

Alyson S. Barclay, Senior Vice President, Secretary, and General Counsel; Gary E. Muenster, Executive Vice President and Chief Financial Officer; and Victor L. Richey, Chairman, Chief Executive Officer, and President

These sales increases resulted in stronger earnings as we delivered EPS of $1.95 in 2011 compared to $1.68 per share in 2010. This earnings strength was the result of our market-leading positions in all three segments, and our ability to successfully execute on our projects. ESCO's performance over the last several years supports our belief that we are pursuing the right core strategies to deliver on our commitments.

Regarding our outlook for 2012 and beyond, we remain extremely positive about our future. Our sales and earnings visibility over the next two or three years has become more clearly defined, and as a result, I remain confident that we have meaningful growth opportunities across all three segments.

We feel comfortable stating that our growth over the next five years will be greater than the industry average. This above average long-term growth comes from the strong positions we currently have in the majority of our product lines and the significant investments we continue to make in new product development and global market expansion.

We expect our near-term growth to be led by the largest AMI gas project in North America, supplemented by our international growth opportunities at Aclara and Doble, and complemented by our expected domestic growth across all three operating segments.

With regard to non-organic growth, we continue to explore and evaluate acquisitions across all three platforms, with our primary focus in USG. We will remain prudent and disciplined in our approach, but with our low leverage and favorable debt pricing we can afford to be aggressive when appropriate.

Looking at our operations: Doble continues to be a bright spot for us, and I believe may not be fully appreciated by the investment community. While the electric utility industry's aging infrastructure certainly works to Doble's favor domestically, the growth opportunities internationally are even more significant. Our new products and solutions, along with our international expansion should allow Doble to realize significant sales growth

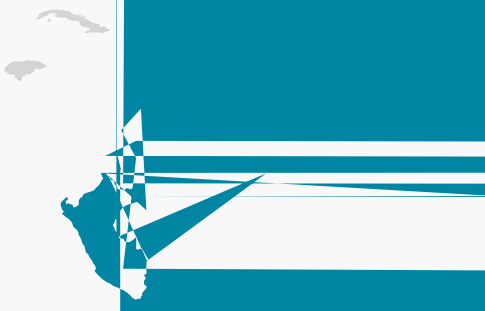
over the next several years, all while maintaining EBIT margins in the mid-20s.

At Aclara, we continue to have proven leadership positions in RF fixed-network gas and water markets evidenced by our significant projects at key customers such as SoCalGas, PG&E Gas, New York City Water, Toronto Water, San Francisco Water and many others. The success realized on these large-scale AMI projects allows us to utilize these well-recognized and respected customers as references, thereby positioning us to grow in these important markets. We have also maintained our leadership position in the COOP market and continue to enhance our product offering to ensure its viability long-term.

Our Filtration and Test segments continue to r
nificant contributions to our current performance
ture growth. Recognizing the invaluable role that
and Test play in our success, we will continue to
these businesses to ensure their growth. The pr
technology as well as the knowledge and talen
employees in these operating segments have
our market position with all of the key customers

ESCO's customers recognize the benefits of
with a company that is supported by a strong
and ethical foundation. As a result, ESCO has gro
globally recognized, customer-focused solutions
We take great pride in our sales and customer s

GLOBAL REACH



forts across the Company as we constantly work with our customers to create high-demand, next-generation products and solutions that consistently exceed expectations. We do this by leveraging our unique combination of broad engineering capabilities, significant market knowledge, and the creativity of our employees.

This solutions-focused approach has allowed us to report compound aggregate growth in sales and EPS of approximately 12 percent and 14 percent, respectively over the last five years.

As we look to the future, we are confident we have the right strategies in place, coupled with multiple opportunities for growth across our operating platforms, which should allow us to achieve our unwavering goal of providing a significant return to our shareholders.

In closing, I'd like to thank our employees and management teams for their dedication which is critical to our success, the Board of Directors for their counsel and guidance, and our shareholders for their continued support.

Vic Richey
Chairman, Chief Executive Officer, & President

Gary Muenster
Executive Vice President & Chief Financial Officer

November 29, 2011

Aclara and Doble Engineering have helped utility customers improve operations and optimize system performance for decades. Aclara is an industry leader in advanced metering infrastructure solutions and analytics for gas, water, and electric utilities. Doble serves utilities and industrial power users worldwide with specialized diagnostic instruments to optimally manage and operate critical energy infrastructure assets including transformers, generators and power system engineering applications.

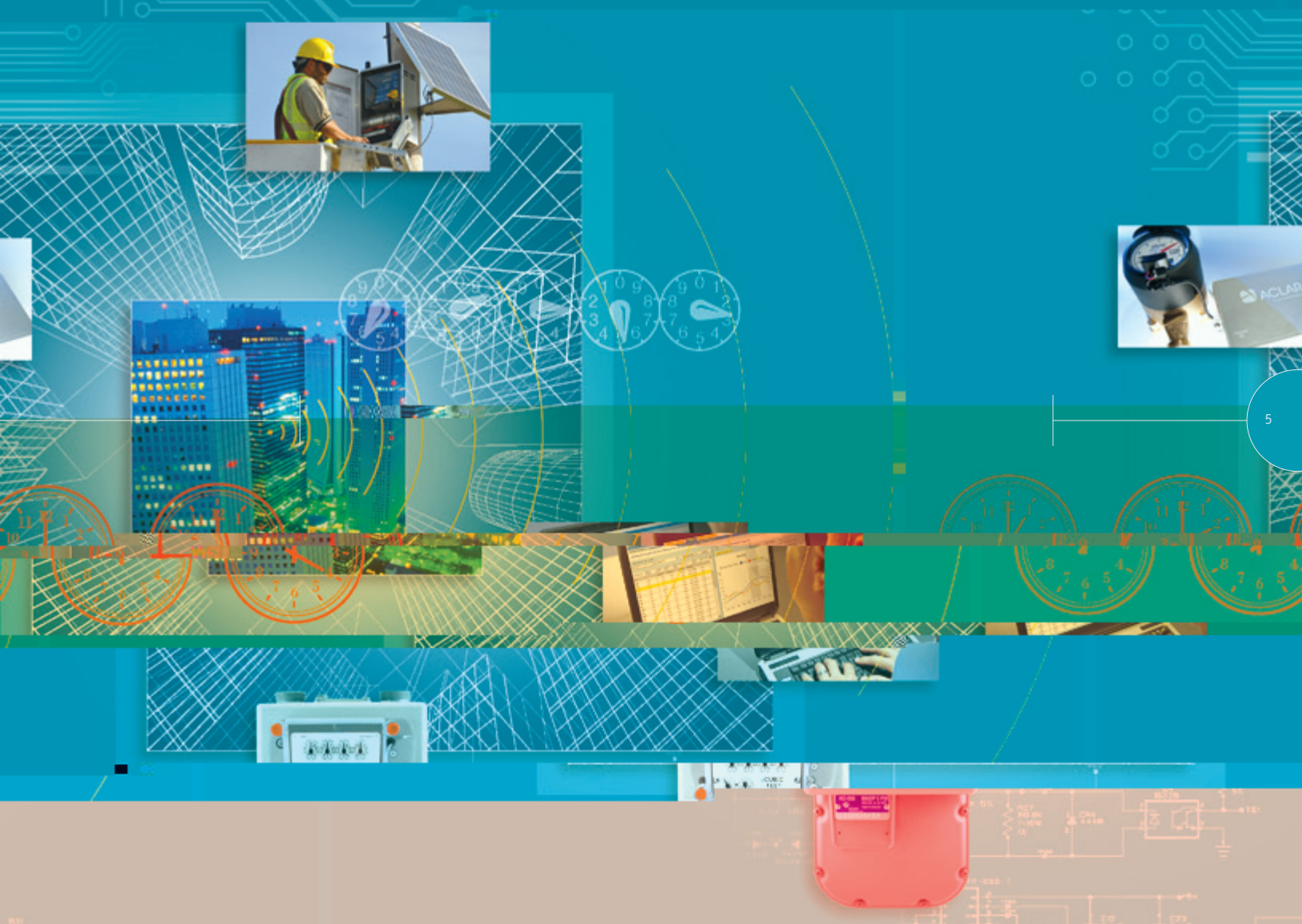
ACLARA: Electric, gas and water utilities are increasingly dependent on smart-data solutions that offer a consistent view of customer requirements, monitor the health and optimal utilization of assets, deliver critical metrics, and apply advanced analytics to ensure peak performance and efficiency. Aclara delivers data-driven solutions that include advanced networks, utility and consumer data-analytics and engagement tools, and standards-based integration of enterprise systems.

NETWORKS THAT DELIVER: Aclara's AMI solutions, the TWACS® and STAR® Network systems, as well as its Acendant™ wide-area network provide utilities with proven choices to gather, transmit, and maintain the data needed to make informed operational decisions and ensure the highest levels of service. Our deployments deliver industry-leading performance regardless of utility type or terrain, and range in size from rural cooperatives to the largest fully functional AMI network in North America.

ANALYTICS THAT ENHANCE: Utilities collect more data in one month today than they collected in 15 years prior to recent enhancements in data networks. Aclara's meter-data-management solutions and advanced analytic applications help utilities understand and apply this data to achieve significant improvements in system performance, efficiency and customer communications. Aclara's Xtensible Solutions makes it possible for utilities to share data between critical enterprise systems through secure, standards-based connections.

APPLICATIONS THAT ENGAGE: Aclara's industry-leading consumer-engagement solutions do more than connect and inform. By presenting high-quality information in formats that consumers understand, Aclara's platform helps them more effectively manage resource usage. Aclara's solutions are employed by numerous utilities with highly ranked consumer-engagement programs.

Aclara's network solutions are field tested and proven to perform regardless of utility type or environment. Our networks are built to integrate with the widest array of meter types in the industry. Advanced data analytics lead utilities to new levels of efficiency and provide consumers with real information to make real choices.



SOLUTIONS THAT DELIVER: Aclara produces a highly effective, comprehensive suite of products that delivers and converts raw device data into actionable intelligence. Our solutions help utilities improve operations and allow consumers to make informed decisions about gas, water, or electricity usage.

DOBLE ENGINEERING: Founded in 1920, Doble offers diagnostic instruments and services, and maintains the world's premier library of statistically significant apparatus test results for energy generation and delivery companies and industrial power users worldwide. Doble has a reputation for excellence, earned through the expertise of its engineers and the quality of its products and services.

DIAGNOSTIC TEST INSTRUMENTS: Unsurpassed cumulative knowledge and field testing experience have enabled Doble to develop diagnostic test instruments that accurately assess electrical apparatus conditions to minimize risk and maximize performance of critical assets. With products engineered to perform consistently despite rough handling and harsh field conditions, Doble instruments are legendary for reliability in the field.

CONSULTING AND TESTING SERVICES: With advanced R&D/Testing laboratories specializing in energy infrastructure, Doble offers expert opinions, maintenance recommendations and more than 200 different analytical tests to clients. More than 5,500 customers receive Doble's unbiased independent diagnosis and assessment of critical energy infrastructure assets. Doble consultants are known as the preeminent worldwide experts in the assessment of critical power distribution assets.

ACCESS TO KNOWLEDGE: Staffed with one of the largest transformer design programs in the world, specializing in transformer and power system engineering, Doble provides expert services supported by a premier library of apparatus test results. Doble's *KnowledgeBase* contains more than 25 million test results on more than 350,000 types of electrical apparatus, manufacturers' service advisories, and thousands of documented client experiences in the form of technical reports, case studies and presentations. For customers, Doble hosts the longest running (78 years) technical conference series on energy infrastructure asset management in the industry.

As a trusted partner to utilities, Doble has worked together with its customers for nearly a century to keep electricity flowing. From its highly regarded test instruments for evaluating high-voltage power apparatus to its invaluable annual Technical Conference Series, Doble is the worldwide leader in supporting the electric utility industry.

With a focus on engineering and operational excellence, the Company's Filtration/Fluid Flow business continues to turn innovation into growth across all served markets. In doing so, Crissair Inc. (Crissair), PTI Technologies Inc. (PTI) and VACCO Industries (VACCO) are recognized as well established leaders at providing winning solutions to a diverse group of technically demanding, solution-oriented end markets that include commercial aerospace, space and defense, satellite communications, medical, industrial and automotive.

AEROSPACE, SPACE AND DEFENSE: Success in providing highly engineered products directly to OEMs, or line replaceable after-market units and spares to support the worldwide aircraft fleet, is the product of recognizing that success is best measured by the solution that most comprehensively addresses the customer's needs. Embracing mutual commitment and collaboration with our customers to achieve that end has resulted in our proprietary products being utilized throughout the aerospace, space and defense industries, from submarines to aircraft to space vehicles exploring Mars and beyond. Examples of this success include: PTI and Crissair filtration and fluid flow control equipment for the Airbus A350XWB aircraft main hydraulics and landing gear systems; VACCO's proprietary "quiet design" air-reducing manifold stations and air and water flow control valves for the Virginia Class submarine program; VACCO's T-700 anti-icing valves for the Black Hawk helicopter program; as well as filters, valves and other fluid controls equipment being utilized on many major aerospace, space and defense programs.

INDUSTRIAL: With a focus on increased value, the tenets of success for the served industrial markets align with the Company's core of solution-oriented excellence. Whether maintaining an existing product position or strategically pursuing new markets, technical superiority and next generation innovations are the keys to continued growth in these markets. Ranging from filter housings and elements to valves, the Company's industrial products are used in power generation and chemical processing plants, in heavy equipment for construction and transportation, and in the medical and petrochemical markets.

Our wide range of highly engineered filtration and fluid control products include regulators, assemblies, manifolds, filters, filter elements, disconnects, components and various types of valves. We service our global customer base through our extensive sales and distribution network.

Increased demand for consumer electronic products, along with our global expansion, is driving ETS-Lindgren's growth. Manufacturers recognize ETS-Lindgren's innovative test and measurement solutions that verify product compliance with industry and government standards.

With the recent acquisition of EMV GmbH near Munich, Germany, ETS-Lindgren added a leading supplier of highly regarded products and services to its RF Shielding & Test Group and greatly increased its sales and support presence in this important geographic region.

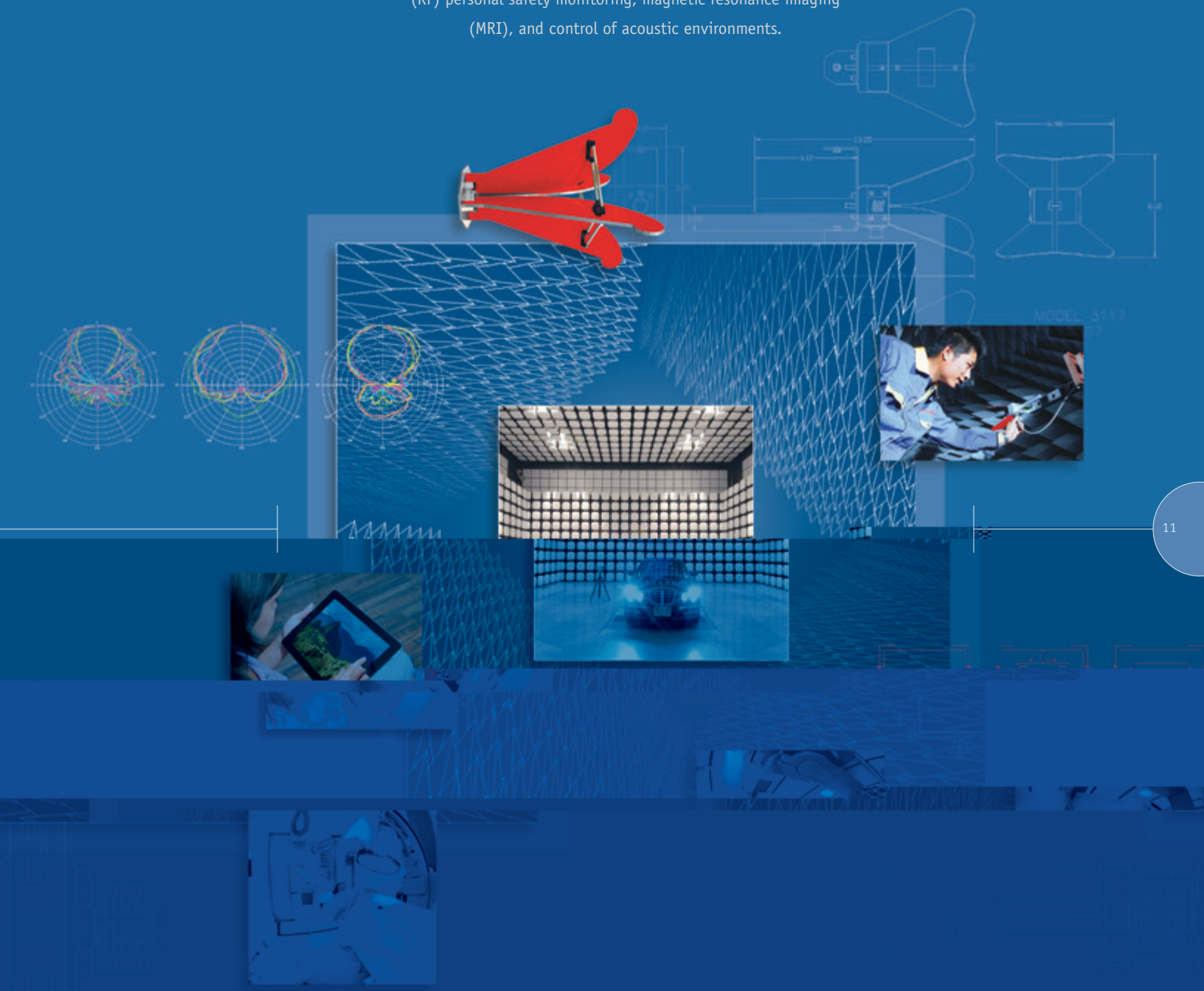
Globally, the Company's growing manufacturing and customer support facilities in Asia, Europe, and North and South America are ideally positioned to serve customers in the world's top economies.

EMC, RF AND ACOUSTIC MEASUREMENT SYSTEMS: As an end-to-end integrated supplier, ETS-Lindgren provides a seamless measurement system that includes the test chamber, instrumentation and test automation software. When testing a product to document performance, manufacturers, whether of wireless devices, automobiles, computers or household appliances, are assured of accurate, reliable test data. Recently, ETS-Lindgren expanded its product offerings for the defense industry to address intentional electromagnetic interference. In the acoustic industry, the Company provides test chambers and services for manufacturers to assess the sound quality of their products.

WIRELESS TEST SOLUTIONS: The proliferation of smart phones has created demand for the development of integrated test systems to verify performance of multiple applications in one wireless device. With its engineers actively contributing to industry standards for over-the-air performance testing of wireless devices with GPS navigation, Wi-Fi, web browsing and more, ETS-Lindgren is uniquely positioned to offer test solutions to meet these evolving standards.

MRI ENCLOSURES AND SERVICES: As MRI technology progresses with higher performance magnets, demand for patient safety and image clarity increases. ETS-Lindgren addresses patient safety with a specialty alarm providing visual and audio warning if the presence of dangerous ferrous material is detected. To ensure optimal image clarity, the Company offers RF shielded MRI enclosures with specialty doors and windows as well as consulting services to determine ideal siting of the magnet.

ETS-Lindgren is a global manufacturer of components and systems that identify, measure and control magnetic, electromagnetic, and acoustic energy. The company's products are used for electromagnetic compatibility (EMC), microwave and wireless testing, electromagnetic field (EMF) measurement, radio frequency (RF) personal safety monitoring, magnetic resonance imaging (MRI), and control of acoustic environments.



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The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto. The years 2011, 2010 and 2009 represent the fiscal years ended September 30, 2011, 2010 and 2009, respectively, and are used throughout the document.

Introduction

ESCO Technologies Inc. and its wholly owned subsidiaries (ESCO, the Company) are organized into three reportable operating segments: Utility Solutions Group (USG), RF Shielding and Test (Test), and Filtration/Fluid Flow (Filtration). The Company's business segments are comprised of the following primary operating entities:

- ***USG:*** Aclara Power-Line Systems Inc. (Aclara PLS), Aclara RF Systems Inc. (Aclara RF), Aclara Software Inc., (Aclara Software), collectively (Aclara); and Doble Engineering Company (Doble),
- ***Test*** EMC Group companies consisting primarily of ETS-Lindgren L.P. (ETS) and Lindgren R.F. Enclosures, Inc. (Lindgren), and
- ***Filtration*** PTI Technologies Inc. (PTI), VACCO Industries (VACCO), Crissair, Inc. (Crissair) and Thermoform Engineered Quality LLC (TEQ) (formerly named TekPackaging LLC).

USG: Aclara is a proven supplier of special purpose fixed-network communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. Aclara's STAR® Network system and TWACS® technology provide advanced radio-frequency (RF) and power-line (PLS) based fixed-network technologies proven to meet the wide-ranging data communications requirements of utilities worldwide. Aclara Software applications add value across the utility enterprise, addressing meter and energy data management, distribution planning and operations, customer service, revenue management and integration solutions. Doble provides high-end, intelligent diagnostic test solutions for the electric power delivery industry and is a leading supplier of power factor and partial discharge testing instruments used to assess the integrity of high-voltage power delivery equipment.

Test The EMC Group is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy.

Filtration The companies within this segment primarily design and manufacture specialty filtration products including hydraulic filter elements used in commercial aerospace applications, unique filter mechanisms used in micro-propulsion devices for satellites and custom designed filters for manned and unmanned aircraft and submarines.

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

Highlights of 2011 Operations

- Sales, net earnings and diluted earnings per share were $693.7 million, $52.5 million and $1.95 per share, respectively, compared to sales, net earnings and diluted earnings per share of $607.5 million, $44.8 million and $1.68 per share in 2010.
- Net cash provided by operating activities was approximately $76 million compared to $67 million in 2010.
- At September 30, 2011, cash on hand was $34.2 million; outstanding debt was $125 million, for a net debt position of approximately $91 million. (Net debt position is defined as total debt less net cash.)
- 2011 entered orders were $676.1 million resulting in a book-to-bill ratio of approximately 1.0x. Backlog at September 30, 2011, was $343.1 million.
- Gross margins in the fourth quarter of 2011 were negatively impacted by $6.5 million in charges related to the write-down of certain Aclara inventory which was determined to be obsolete as next generation Advanced Metering Infrastructure (AMI) products are currently being offered for sale.
- Other (income) expenses, net in 2011, was favorably impacted by $7.6 million in gains related to the revaluation of an earnout liability associated with a previous acquisition.
- In June 2011, the Company signed an agreement with Southern California Gas Co. (SoCalGas), a subsidiary of Sempra Energy, for its Aclara RF STAR® Network in connection with SoCalGas' AMI project. SoCalGas' project currently includes plans for deployment of Aclara's integrated hardware, software and network architecture solution to over six million customers throughout its service territory. The Company recorded $20 million in initial orders related to this agreement in 2011.
- Aclara PLS received an additional $21 million order to supply products to Mexico's electric utility, Federal Commission of Electricity (CFE), related to CFE's electric AMI deployment and recorded $33 million in sales from this customer in 2011.
- The Company received $17 million of orders in 2011 and recorded $24 million in sales to Pacific Gas & Electric Company (PG&E) related to its gas AMI deployment. Cumulative-to-date orders from PG&E for the gas AMI deployment total 4.8 million units and $268 million through September 30, 2011.

- On February 28, 2011, the Company acquired EMV GmbH (EMV) for $5 million. EMV provides turnkey systems and shielded environments for research, development and quality assurance testing of electronic equipment within the Test segment.
- The Company declared dividends of $0.32 per share, totaling $8.5 million in payments during 2011.

Results of Continuing Operations

NET SALES

(Dollars in millions)	Fiscal year ended 2011	2010	2009	Change 2011 vs. 2010	Change 2010 vs. 2009
USG	**$349.6**	348.3	374.0	**0.4%**	(6.9)%
Test	**176.5**	138.4	138.4	**27.5%**	— %
Filtration	**167.6**	120.8	106.7	**38.7%**	13.2 %
Total	**$693.7**	607.5	619.1	**14.2%**	(1.9)%

USG

The net sales increase of $1.3 million, or 0.4%, in 2011 as compared to the prior year was due to: a $21.8 million increase in net sales from Aclara PLS primarily due to higher shipments to CFE; an $11.7 million increase in net sales from Doble driven by higher product shipments; a $3.3 million increase in net sales from Aclara Software mainly due to the Xtensible acquisition (acquired September 3, 2010); partially offset by a $32 million decrease in net sales from Aclara RF related to the PG&E gas project and a $10 million decrease for the New York City water project as both near completion.

The net sales decrease of 6.9%, or $25.7 million in 2010 as compared to 2009 was due to: a $50.4 million decrease in net sales from Aclara RF due to lower AMI gas product deliveries at PG&E; partially offset by an $18.2 million increase in net sales from Aclara PLS due to higher shipments to CFE, Colombia's utility EMCALI EICE ESE (EMCALI) and the Puerto Rico Electric Power Authority (PREPA); and a $6.7 million increase in net sales from Doble driven by an increase in service and product revenues.

The Company's total sales to PG&E were $24 million in 2011, $55.9 million in 2010 (representing approximately 9% of the Company's consolidated net sales), and $106.2 million in 2009 (representing approximately 17% of the Company's consolidated net sales).

Test

The net sales increase of $38.1 million, or 27.5%, in 2011 as compared to the prior year was due to: a $15.5 million increase in net sales from the segment's U.S. operations mainly driven by a large project for NASA in Florida; a $17.3 million increase in net sales from the segment's European operations mainly due to the current year EMV acquisition that contributed $11 million; and a $5.4 million increase in net sales from the segment's Asian operations due to several large chamber projects in Japan.

Net sales for the segment were consistent in 2010 and 2009. However, there was a $4.1 million increase in net sales from the segment's European operations due to an improvement in the European medical business and the shipment of a large military project; a $2.9 million increase in net sales from the segment's Asian operations due to higher chamber shipments; partially offset by a $6.9 million decrease in net sales from the segment's U.S. operations driven by a decrease in small test and measurement projects domestically.

Filtration

The 38.7%, or $46.8 million increase in net sales in 2011 as compared to the prior year was due to: a $22.9 million increase in net sales from Crissair (Crissair was acquired effective July 31, 2010); a $12.7 million increase at TEQ due to higher shipments of its ear thermometer probe cover product; an $8.2 million increase in net sales from VACCO due to higher shipments of Virginia Class submarine products and defense spares shipments; and a $3 million increase at PTI driven by higher shipments of aerospace assemblies and elements.

The 13.2%, or $14.1 million increase in net sales in 2010 as compared to 2009 was due to: a $5 million increase in net sales at PTI due to higher shipments of aerospace assemblies and elements; the acquisition of Crissair with a net sales contribution of $4 million (representing two months of sales); a $2.8 million increase in net sales at VACCO driven by higher shipments of space products; and a $2.3 million increase at TEQ due to higher sales to commercial customers.

ORDERS AND BACKLOG

New orders received in 2011 were $676.1 million as compared to $668.8 million in 2010, resulting in order backlog of $343.1 million at September 30, 2011, as compared to order backlog of $360.6 million at September 30, 2010. In 2011, the Company recorded $321.4 million of orders related to USG products, $189.1 million related to Test products, and $165.6 million related to Filtration products. Orders are entered into backlog as firm purchase order commitments are received.

In 2010, the Company recorded $369.4 million of orders related to USG products, $158.5 million related to Test products, and $140.9 million related to Filtration products (including $15.3 million related to the Crissair acquisition).

In June 2011, the Company finalized a definitive agreement with Southern California Gas Co. (SoCalGas), a subsidiary of Sempra Energy, for its AMI project. SoCalGas' project includes plans to deploy Aclara's integrated hardware, software and network architecture solution to over six million residential and most commercial natural gas customers throughout its service territory. Most of the equipment will be ordered by placement of formal purchase orders under the agreement. The Company recorded $20 million in initial orders related to this agreement in 2011.

The Company received orders from PG&E for AMI products of $17 million, $54 million and $80 million during 2011, 2010 and 2009, respectively. Cumulative-to-date orders from PG&E for the gas AMI deployment total 4.8 million units and $268 million through September 30, 2011, as the contract nears completion.

In December 2010, Aclara PLS received an additional $21 million order from Mexico's electric utility CFE for an additional 90,000 units to further expand its deployment of Aclara's TWACS® power-line technology solution.

During the first quarter of 2011, ETS-Lindgren received a $6.5 million order for an anechoic test chamber in South America that will be used to test telecommunications satellites, and a $5.4 million order in Turkey for a chamber that will be used to identify electromagnetic interference for a variety of large motorized vehicles.

2010

Aclara RF received $28 million in orders from New York City for its fixed-network AMI water project.

In December 2009, Aclara PLS received the first $21 million order to supply products to Mexico's electric utility CFE related to its electric AMI deployment and a $5 million order from Colombia's utility EMCALI for its electric AMI project.

In January 2010, Aclara RF received a contract from the Toho Water Authority of Kissimmee, Florida, related to its AMI water project with orders expected to total $9 million over a five-year deployment period. In addition, Aclara RF received a contract to supply products for the City of Toronto, Canada's, AMI water project with orders anticipated to total $34 million over a six-year deployment period. The Company also received a $13 million order from the San Francisco Public Utilities Commission related to its AMI water project.

In July 2010, VACCO finalized a $41 million contract to provide the next seven ship-sets of valves and manifolds for the U.S. Navy's Virginia Class submarine program with product deliveries from 2010 through 2014.

In August 2010, VACCO was awarded a five-year contract with orders anticipated to be valued at up to $35 million to supply T-700 anti-icing valves for use on U.S. Army UH-60 series Black Hawk helicopters.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (SG&A) were $182.5 million, or 26.3% of net sales in 2011, $157.3 million, or 26% of net sales in 2010, and $152.4 million, or 24.6% of net sales in 2009.

The increase in SG&A expenses in 2011 as compared to the prior year was due to: an $11.4 million increase within the USG segment due to new product development, marketing and engineering expenses; a $7.7 million increase within the Test segment primarily due to the current year acquisition of EMV and SG&A to support the international marketplace expansion; and a $6.1 million increase within the Filtration segment mainly due to a full year contribution from Crissair (versus two months in 2010).

The increase in SG&A expenses in 2010 as compared to 2009 was due to increases in new product development, marketing and engineering expenses at Doble; an increase in SG&A within the Test segment to support the international marketplace expansion; and an increase within the Filtration segment due to higher engineering expenses.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets was $12 million in 2011, $11.6 million in 2010 and $19.2 million in 2009. The Company recorded $4.7 million, $4.5 million and $12.2 million in 2011, 2010 and 2009, respectively, related to Aclara PLS's TWACS NG capitalized software. Amortization of intangible assets included $4.6 million, $4.8 million and $4.7 million of amortization of acquired intangible assets related to the Company's acquisitions in 2011, 2010 and 2009, respectively. The amortization of acquired intangible assets related to the Company's acquisitions is included in the Corporate operating segment's results. The remaining amortization expenses consist of other identifiable intangible assets (primarily software, patents and licenses) and are included in the respective segment's operating results.

The decrease in amortization expense in 2010 as compared to 2009 was mainly due to the Company's TWACS NG software. During 2010, the Company re-evaluated the economic useful life of its TWACS NG capitalized software and concluded the remaining TWACS NG asset value has an expected remaining useful life of ten years, through 2019 (compared to its previous useful life of seven years).

OTHER (INCOME) EXPENSES, NET

Other (income) expenses, net, was ($5.1) million in 2011 compared to other expenses, net, of $2.9 million and $4.5 million in 2010 and 2009, respectively. The principal component in other (income) expenses, net, in 2011 was ($7.6) million of income representing a revaluation of the earnout liability related to the Xtensible acquisition. The principal item included in other expenses, net, in 2010 was $1.5 million of severance expenses. The principal item included in other expenses, net, in 2009 consisted of $2.3 million of facility exit/relocation charges incurred in connection with the move of the Aclara RF facility. There were no other individually significant items included in other (income) expenses, net, in 2011, 2010 or 2009.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

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

EBIT

(Dollars in millions)	Fiscal year ended 2011	2010	2009	Change 2011 vs. 2010	Change 2010 vs. 2009
USG	**$ 54.3**	67.4	62.5	**(19.4)%**	7.8 %
% of net sales	**15.5%**	19.4%	16.7%		
Test	**18.6**	12.2	14.1	**52.5 %**	(13.5)%
% of net sales	**10.5%**	8.8%	10.2%		
Filtration	**30.8**	19.5	18.1	**57.9 %**	7.7 %
% of net sales	**18.4%**	16.1%	17.0%		
Corporate	**(24.2)**	(25.5)	(24.1)	**(5.1)%**	5.8 %
Total	**$79.5**	73.6	70.6	**8.0 %**	4.2 %
% of net sales	**11.5%**	12.1%	11.4%		

The reconciliation of EBIT to a GAAP financial measure is as follows:

(Dollars in millions)	2011	2010	2009
EBIT	**$79.5**	73.6	70.6
Less: Interest expense	**(2.5)**	(4.0)	(7.4)
Less: Income taxes	**(24.5)**	(24.8)	(13.9)
Net earnings from continuing operations	**$52.5**	44.8	49.3

USG

The $13.1 million decrease in EBIT in 2011 as compared to 2010 was due to: lower sales volumes at Aclara RF as the PG&E gas project and New York City water project both near completion; partially offset by increases in EBIT at Aclara PLS and Doble due to increased sales volumes. EBIT was negatively impacted by $6.5 million in charges related to the write-down of certain Aclara inventory which was determined to be obsolete as next generation AMI products are currently being offered for sale. EBIT was favorably impacted by a $7.6 million gain related to the revaluation of the earnout liability related to a previous acquisition.

The $4.9 million increase in EBIT in 2010 as compared to 2009 was due to: a $3 million increase in EBIT from Aclara primarily due to increased sales volumes at Aclara PLS along with a decrease in amortization for the TWACS NG capitalized software; and a $1.9 million increase in EBIT from Doble related to the increased sales volumes.

Test

The $6.4 million increase in EBIT in 2011 as compared to the prior year was due to: an increase of $4.8 million related to the segment's U.S. operations driven by the higher sales volumes; and a $1.6 million increase related to the segment's European and Asian operations also driven by additional sales volumes as mentioned earlier.

The $1.9 million decrease in EBIT in 2010 as compared to 2009 was due to: a decrease in EBIT from the Company's U.S. operations due to changes in product mix; higher SG&A expenses to support the international marketplace expansion; partially offset by a $1.4 million increase in EBIT from the Company's European and Asian operations related to the increased sales volumes.

Filtration

EBIT increased $11.3 million in 2011 as compared to the prior year mainly due to the additional sales volumes at VACCO, TEQ and PTI mentioned above as well as the full-year EBIT contribution from Crissair.

EBIT increased $1.4 million in 2010 as compared to 2009 primarily due to increased sales volumes and favorable overhead absorption at VACCO.

Corporate

Corporate operating charges included in consolidated EBIT decreased $1.3 million in 2011 as compared to 2010 mainly due to a decrease in transaction costs related to acquisition activity and lower professional fees.

Corporate operating charges included in consolidated EBIT increased $1.4 million in 2010 as compared to 2009 primarily due to transaction costs related to acquisition activity, including professional fees.

The "Reconciliation to Consolidated Totals (Corporate)" in Note 15 to the Consolidated Financial Statements represents Corporate office operating charges.

INTEREST EXPENSE, NET

Interest expense was $2.5 million in 2011, $4 million in 2010 compared to $7.4 million in 2009, respectively. The decrease in interest expense in 2011 as compared to the prior year was due to lower average interest rates (1.4% vs. 1.9%) and lower average outstanding borrowings ($143 million vs. $171 million) under the revolving credit facility. The decrease in interest expense in 2010 as compared to 2009 was due to lower average interest rates (1.9% vs. 3.3%) and lower average outstanding borrowings ($171 million vs. $211 million) under the revolving credit facility.

INCOME TAX EXPENSE

The 2011 effective tax rate was 31.8% compared to 35.6% in 2010 and 22% in 2009. The decrease in the 2011 effective tax rate as compared to the prior year was due to: the favorable impact of the research tax credit which reduced 2011 income tax expense by $1.6 million and the effective tax rate by 2% as a result of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010; the release of uncertain tax positions as a result of the lapse of statute of limitations reduced income tax expense by $0.4 million and the effective tax rate by 0.5%; and an increase in the beneficial effect of foreign tax rates which reduced 2011 income tax expense by $0.6 million and the effective tax rate by 0.7%.

The increase in the 2010 effective tax rate as compared to 2009 was due primarily to the absence of certain items, such as the decrease in the tax liabilities related to uncertain tax positions recorded in 2009 for the fiscal years 2003 through 2007. The overall decrease in uncertain tax positions reduced 2009 income tax expense by $8.6 million and the effective tax rate by 13.6%.

Capital Resources and Liquidity

The Company's overall financial position and liquidity is strong. Working capital (current assets less current liabilities) increased to $122.5 million at September 30, 2011 from $109.4 million at September 30, 2010, due to higher cash balances on hand and higher inventory and advance payments on long-term contract balances.

The $14 million increase in inventory at September 30, 2011, was mainly due to: $7 million in the Test segment due to the current year acquisition of EMV and an increase in long-lead raw materials for new products; and $5.8 million in the Filtration segment mainly due to accelerated material receipts for VACCO's T-700 program. The $18 million increase in advance payments on long-term contracts was primarily at VACCO related to advance payments received on the Virginia Class project.

Net cash provided by operating activities from continuing operations was $75.9 million, $67 million and $77.5 million in 2011, 2010 and 2009, respectively. The increase in 2011 as compared to 2010 was primarily due to an increase in net earnings and lower operating working capital requirements.

Capital expenditures were $13.7 million, $13.4 million and $9.3 million in 2011, 2010 and 2009, respectively. The increase in 2010 as compared to 2009 was due to approximately $4.5 million for manufacturing equipment and new ERP software within the Filtration segment. There were no commitments outstanding that were considered material for capital expenditures at September 30, 2011. In addition, the Company incurred expenditures for capitalized software of $14.2 million, $8.8 million and $5 million in 2011, 2010 and 2009, respectively. The increase in 2011 as compared to the prior years was primarily due to a $3 million increase within the USG segment related to software development for new products.

The Company made required pension contributions of $5.2 million, $1.4 million and $2 million in 2011, 2010 and 2009, respectively.

ACQUISITIONS

2011

On February 28, 2011, the Company acquired the capital stock of EMV Elektronische Messgerate Vertriebs - GmbH, together with its subsidiary EMSCREEN Electromagnetic Screening GmbH (collectively, EMV) for a purchase price of approximately $5 million, inclusive of cash acquired. EMV, with operations in Taufkirchen, Germany, provides turnkey systems and shielded environments for research, development and quality assurance testing of electronic equipment. EMV's operating results, since the date of acquisition, are included within the Test segment and the Company recorded approximately $4.8 million of goodwill as a result of the transaction.

2010

Effective July 31, 2010, the Company acquired the capital stock of Crissair, Inc. (Crissair) for a purchase price of approximately $27 million, net of cash acquired. Crissair, headquartered in Palmdale, California, is a manufacturer of high-quality hydraulic, fuel and pneumatic system components for the aerospace industry. The operating results for Crissair, since the date of acquisition, are included within the Filtration segment. The Company recorded approximately $9 million of goodwill as a result of the transaction, $4.3 million of trade names and $7.4 million of amortizable identifiable intangible assets consisting of customer relationships.

On September 3, 2010, the Company acquired the capital stock of Xtensible Solutions, Inc. (Xtensible) for a purchase price of approximately $4 million in cash plus contingent consideration. Xtensible is a provider of information management and integration solutions to the utility industry worldwide and its operating results, since the date of acquisition, are included within Aclara Software in the USG segment. The agreement includes contingent consideration based on target revenues to be paid out over the next three and one-half years from the date of acquisition. The Company recorded approximately $15 million of goodwill as a result of the transaction. During 2011, the Company revalued the earnout obligation based on current forecasted revenues and recorded a $7.6 million gain in Other (income) expenses, net.

2009

On September 21, 2009, the Company acquired a minority interest in Firetide, Inc. for $4 million in cash. Firetide, Inc. is a provider of wireless infrastructure mesh network management systems which will enable communications with other Smart Grid assets and this technology will be used in Aclara's Acendant Network solution. This investment is accounted for under the cost method and is included in Other assets on the Company's Consolidated Balance Sheet as of September 30, 2011 and 2010.

On July 2, 2009, the Company acquired certain assets of Complus Systems Pvt Ltd. (Complus) in India for approximately $1.2 million in cash and formed a new Indian entity. The entity operates as ETS-India and its operating results, since the date of acquisition, are included within the Test segment.

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

BANK CREDIT FACILITY

At September 30, 2011, the Company had approximately $190 million available to borrow under its credit facility, plus a $50 million increase option, in addition to $34.2 million of cash on hand. At September 30, 2011, the Company had outstanding borrowings of $125 million, and outstanding letters of credit of $15 million. The Company classified $50 million as the current portion of long-term debt as of September 30, 2011, as the Company intends to repay this amount within the next twelve months; however, the Company has no contractual obligation to repay such amount during the next twelve months. The Company's ability to access the additional $50 million increase option of the credit facility is subject to acceptance by participating or other outside banks. The credit facility has a maturity date of November 30, 2012. The Company intends to refinance its credit facility during 2012.

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

The credit facility requires, as determined by certain financial ratios, a facility fee ranging from 15 to 25 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the LIBOR or based on the prime rate, at the Company's election. The credit facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility include a leverage ratio and an interest coverage ratio. As of September 30, 2011, the Company was in compliance with all bank covenants.

DIVIDENDS

During 2010, the Company initiated a quarterly cash dividend payable at an annual rate of $0.32 per share. The Company paid $8.5 million of dividends in 2011.

OUTLOOK — 2012

Management expects 2012 consolidated revenues to increase in the low-to-mid single digits compared to 2011. EPS is expected to grow five to ten percent in 2012 compared to 2011. In addition, the 2012 effective tax rate is projected to be between 33% and 35%. On a quarterly basis, Management expects 2012 revenues and EPS to be more second-half weighted.

CONTRACTUAL OBLIGATIONS

The following table shows the Company's contractual obligations as of September 30, 2011:

(Dollars in millions)	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Long-Term Debt Obligation	$125.0	—	125.0	—	—
Estimated Interest Payments[1]	4.8	2.2	2.6	—	—
Operating Lease Obligations	27.2	7.6	11.6	4.7	3.3
Purchase Obligations[2]	11.5	10.9	0.6	—	—
Total	$168.5	20.7	139.8	4.7	3.3

[1] Estimated interest payments for the Company's debt obligations were calculated based on Management's determination of the estimated applicable interest rates and payment dates.

[2] A purchase obligation is defined as a legally binding and enforceable agreement to purchase goods and services that specifies all significant terms. Since the majority of the Company's purchase orders can be cancelled, they are not included in the table above.

As of September 30, 2011, the Company had $3.6 million of liabilities for uncertain tax positions. The unrecognized tax benefits have been excluded from the table above due to uncertainty as to the amounts and timing of settlement with taxing authorities.

The Company has no off-balance-sheet arrangements outstanding at September 30, 2011.

SHARE REPURCHASES

In July 2010, the Company's Board of Directors extended its previously authorized open market common stock repurchase program of the Company's shares at a value not to exceed $30 million, subject to market conditions and other factors which covers the period through September 30, 2012. There were no stock repurchases during 2011, 2010 or 2009.

PENSION FUNDING REQUIREMENTS

The minimum cash funding requirements related to the Company's defined benefit pension plans are estimated to be approximately $3.4 million in 2012, approximately $4.4 million in 2013 and approximately $4.8 million in 2014.

OTHER

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

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

Market Risk Analysis

MARKET RISK EXPOSURE

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. 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 2010, the Company entered into a $60 million one-year amortizing forward interest rate swap effective October 5, 2010. This interest rate swap expired in October 2011. 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. Based on the interest rate swaps outstanding, the interest rates on approximately 50% of the Company's total borrowings were effectively fixed as of September 30, 2011. The Company has determined that the market risk related to interest rates with respect to its variable debt that is not hedged is not material. The Company estimates that if market interest rates averaged one percentage point higher, the effect would have been less than 2% of net earnings

for the year ended September 30, 2011. 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 September 30, 2011.

(Dollars in thousands)	Notional Amount	Average Rec Rate	Average Pay Rate	Fair Value
Interest rate swap	$60,000	0.22%	1.10%	$(3)

The Company is also subject to foreign currency exchange rate risk inherent in its sales commitments, anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. The foreign currency most significant to the Company's operations is the Euro. Net sales to customers outside of the United States were $181.3 million, $141.4 million, and $110.7 million in 2011, 2010 and 2009, respectively. The Company hedges certain foreign currency commitments by purchasing foreign currency forward contracts. The estimated fair value of open forward contracts at September 30, 2011 was not material. The Company does not have material foreign currency market risk (e.g. net foreign currency transaction gain/loss was less than 2% of net earnings for fiscal years 2011, 2010 and 2009).

Critical Accounting Policies

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

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

REVENUE RECOGNITION

USG Segment: Within the USG segment, approximately 70% of the segment's revenue arrangements (approximately 35% of consolidated revenues) contain software components and/or multiple element arrangements. Revenue under these arrangements is recognized in accordance with FASB ASC Subtopic 985-605, Software — Revenue Recognition and/or FASB ASC Subtopic 605-25, Revenue Recognition: Multiple Deliverable Arrangements. The application of these standards requires judgment, including the determination of whether an arrangement includes multiple elements and estimates of the fair value of the elements, using vendor-specific objective evidence of fair value (VSOE), if it exists, otherwise third-party evidence (TPE) or estimated selling price (ESP). Changes to the elements in an arrangement, and the ability to identify fair value for those elements could materially impact the amount of earned and/or deferred revenue. There have been no material changes to these estimates for the financial statement periods presented and the Company believes that these estimates generally should not be subject to significant variation in the future. The remaining 30% of the segment's revenues (approximately 15% of consolidated revenues) represent products sold under a single element arrangement and are recognized when products are delivered (when title and risk of ownership transfers), when services are performed for unaffiliated customers or on a straight-line basis over the lease term.

Test Segment: Within the Test segment, approximately 40% of revenues (approximately 10% of consolidated revenues) are recognized when products are delivered (when title and risk of ownership transfers) or when services are performed for unaffiliated customers. Certain arrangements contain multiple elements which are accounted for under the provisions of FASB ASC Subtopic 605-25, Revenue Recognition: Multiple-Element Arrangements. The application of the applicable guidance requires judgment as to whether the deliverables can be divided into more than one unit of accounting and whether the separate units of accounting have value to the customer on a stand-alone basis. Changes to these elements could affect the timing of revenue recognition. There have been no material changes to these elements for the financial statement periods presented.

Approximately 60% of the segment's revenues (approximately 15% of consolidated revenues) are recorded under the percentage-of-completion provisions of FASB ASC Subtopic 605-35, Revenue Recognition: Construction-Type and Production-Type Contracts due to the complex nature of the enclosures that are designed and produced under these contracts. As discussed above, this method of accounting involves the use of various estimating techniques to project costs at completion, which are based on

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

GOODWILL AND OTHER LONG-LIVED ASSETS

In accordance with FASB ASC Topic 350, Intangibles — Goodwill and Other (ASC 350), Management annually reviews goodwill and other long-lived assets with indefinite useful lives for impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If the Company determines that the carrying value of the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Fair value is measured based on a discounted cash flow method using a discount rate determined by Management to be consistent with those utilized by

Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in the Company's internal controls or in other factors during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

New Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011 and will be applied retrospectively. ASU 2011-05 affects financial statement presentation only and will have no impact on the Company's results of operations.

Forward-Looking Information

Statements regarding future events and the Company's future results that are based on current expectations, estimates, forecasts and projections about the Company's performance and the industries in which the Company operates, the amount and timing of 2012 revenues and EPS, adequacy of the Company's credit facilities and future cash flows, ability of the Company to refinance its credit facility in 2012, minimum cash funding requirements for the Company's defined benefit pension plans, the anticipated size of SoCalGas' deployment, the anticipated timing of deliveries by VACCO for the U.S. Navy's Virginia Class submarine program and the anticipated timing and value of deliveries for the U.S. Army's T-700 valve program, the expected value of Aclara's contracts with Toho Water Authority and the City of Toronto, the outcome of current litigation, claims and charges, the anticipated timing and amount of lost deferred tax assets, continued reinvestment of foreign earnings, 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 the letter To Our Shareholders (pages 1-3), and Management's Discussion and Analysis and other statements contained herein which are not strictly historical are considered "forward-looking statements" within the meaning of the safe harbor provisions of the Federal securities laws. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that such statements are only predictions, speak only as of the date of this report, and the Company undertakes no duty to update. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including, but not limited to those described under "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2011, and the following: changes in requirements or financial constraints impacting SoCalGas; the receipt of necessary regulatory approvals pertaining to SoCalGas' project; the impacts of natural disasters such as flooding in Thailand on the availability of certain component parts; the timing and content of future customer orders; 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.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts) Years ended September 30,	2011	2010	2009
Net sales	$693,711	607,493	619,064
Costs and expenses:			
Cost of sales	424,846	361,942	372,351
Selling, general and administrative expenses	182,530	157,348	152,397
Amortization of intangible assets	11,982	11,633	19,214
Interest expense, net	2,493	3,977	7,450
Other (income) expenses, net	(5,098)	2,928	4,480
Total costs and expenses	616,753	537,828	555,892
Earnings before income tax	76,958	69,665	63,172
Income tax expense	24,457	24,819	13,867
Net earnings from continuing operations	$ 52,501	44,846	49,305
Earnings from discontinued operations, net of tax of $568 in 2009	—	—	135
Loss on sale of discontinued operations, net of tax of $905 in 2009	—	—	(32)
Net earnings from discontinued operations	—	—	103
Net earnings	$ 52,501	44,846	49,408
Earnings per share:			
Basic:			
Continuing operations	$1.97	1.70	1.88
Discontinued operations	—	—	—
Net earnings	$1.97	1.70	1.88
Diluted:			
Continuing operations	1.95	1.68	1.86
Discontinued operations	—	—	—
Net earnings	$1.95	1.68	1.86
Average common shares outstanding (in thousands):			
Basic	26,588	26,450	26,216
Diluted	26,903	26,738	26,560

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands) Years ended September 30,	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,158	26,508
Accounts receivable, less allowance for doubtful accounts of $2,044 and $1,885 in 2011 and 2010, respectively	144,083	141,098
Costs and estimated earnings on long-term contracts, less progress billings of $11,416 and $12,189 in 2011 and 2010, respectively	12,974	12,743
Inventories	96,986	83,034
Current portion of deferred tax assets	20,630	15,809
Other current assets	19,523	17,169
Total current assets	328,354	296,361
Property, plant and equipment:		
Land and land improvements	4,986	4,986
Buildings and leasehold improvements	52,648	50,318
Machinery and equipment	85,440	75,721
Construction in progress	2,779	5,970
	145,853	136,995
Less accumulated depreciation and amortization	72,786	64,432
Net property, plant and equipment	73,067	72,563
Intangible assets, net	231,848	229,736
Goodwill	361,864	355,656
Other assets	16,704	19,975
Total Assets	$ 1,011,837	974,291

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands) Years ended September 30,	2011	2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 50,000	50,000
Accounts payable	54,037	59,088
Advance payments on long-term contracts, less costs incurred of $30,925 and $19,547 in 2011 and 2010, respectively	23,667	5,729
Accrued salaries	26,040	23,762
Current portion of deferred revenue	24,499	21,907
Accrued other expenses	27,594	26,494
Total current liabilities	205,837	186,980
Pension obligations	33,439	29,980
Deferred tax liabilities	85,313	79,388
Other liabilities	11,538	17,961
Long-term debt	75,000	104,000
Total liabilities	411,127	418,309
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 29,956,904 and 29,839,343 shares in 2011 and 2010, respectively	300	298
Additional paid-in capital	275,807	270,943
Retained earnings	403,241	359,274
Accumulated other comprehensive loss, net of tax	(19,191)	(14,793)
	660,157	615,722
Less treasury stock, at cost (3,320,926 and 3,338,986 common shares in 2011 and 2010, respectively)	(59,447)	(59,740)
Total shareholders' equity	600,710	555,982
Total Liabilities and Shareholders' Equity	$ 1,011,837	974,291

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, September 30, 2008	29,465	295	254,240	273,470	556	(60,324)	468,237
Comprehensive income:							
Net earnings	—	—	—	49,408	—	—	49,408
Translation adjustments	—	—	—	—	(707)	—	(707)
Net unrecognized actuarial loss, net of tax of $7,488	—	—	—	—	(11,393)	—	(11,393)
Interest rate swap, net of tax of $62	—	—	—	—	(54)	—	(54)
Comprehensive income							37,254
Stock options and stock compensation plans, net of tax benefit of $(325)	306	3	11,554	—	—	292	11,849
Balance, September 30, 2009	29,771	298	265,794	322,878	(11,598)	(60,032)	517,340
Comprehensive income:							
Net earnings	—	—	—	44,846	—	—	44,846
Translation adjustments	—	—	—	—	(1,557)	—	(1,557)
Net unrecognized actuarial loss, net of tax of $1,422	—	—	—	—	(2,234)	—	(2,234)
Interest rate swap, net of tax of $(385)	—	—	—	—	596	—	596
Comprehensive income							41,651
Cash dividends declared ($0.32 per share)	—	—	—	(8,450)	—	—	(8,450)
Stock options and stock compensation plans, net of tax benefit of $(105)	68	—	5,149	—	—	292	5,441
Balance, September 30, 2010	29,839	298	270,943	359,274	(14,793)	(59,740)	555,982
Comprehensive income:							
Net earnings	**—**	**—**	**—**	**52,501**	**—**	**—**	**52,501**
Translation adjustments	**—**	**—**	**—**	**—**	**(333)**	**—**	**(333)**
Net unrecognized actuarial loss, net of tax of $2,689	**—**	**—**	**—**	**—**	**(4,354)**	**—**	**(4,354)**
Interest rate swap, net of tax of $(187)	**—**	**—**	**—**	**—**	**289**	**—**	**289**
Comprehensive income							**48,103**
Cash dividends declared ($0.32 per share)	**—**	**—**	**—**	**(8,534)**	**—**	**—**	**(8,534)**
Stock options and stock compensation plans, net of tax benefit of $(55)	**118**	**2**	**4,864**	**—**	**—**	**293**	**5,159**
Balance, September 30, 2011	**29,957**	**$300**	**275,807**	**403,241**	**(19,191)**	**(59,447)**	**600,710**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands) Years ended September 30,	2011	2010	2009
Cash flows from operating activities:			
Net earnings	$ 52,501	44,846	49,408
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net earnings from discontinued operations, net of tax	—	—	(103)
Depreciation and amortization	23,521	22,137	30,267
Stock compensation expense	4,670	4,558	4,866
Changes in current assets and liabilities	(1,542)	(9,615)	1,566
Effect of deferred taxes on tax provision	3,551	4,059	(2,543)
Change in acquisition earnout obligation	(7,595)	—	—
Pension contributions	(5,230)	(1,368)	(1,997)
Change in deferred revenue and costs, net	2,565	329	1,781
Amortization of prepaid debt fees	772	257	610
Change in uncertain tax positions	294	765	(5,700)
Other	2,359	1,055	(681)
Net cash provided by operating activities — continuing operations	75,866	67,023	77,474
Net cash provided by operating activities — discontinued operations	—	—	142
Net cash provided by operating activities	75,866	67,023	77,616
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(4,982)	(32,316)	(6,442)
Change in restricted cash (acquisition escrow)	1,361	2,041	2,189
Capital expenditures	(13,709)	(13,438)	(9,255)
Additions to capitalized software	(14,151)	(8,827)	(5,004)
Net cash used by investing activities — continuing operations	(31,481)	(52,540)	(18,512)
Proceeds from divestiture of business, net — discontinued operations	—	—	3,100
Net cash used by investing activities	(31,481)	(52,540)	(15,412)
Cash flows from financing activities:			
Proceeds from long-term debt	49,370	40,000	32,000
Principal payments on long-term debt	(78,370)	(66,467)	(85,183)
Dividends paid	(8,534)	(6,335)	—
Proceeds from exercise of stock options	762	767	6,621
Other	370	988	1,029
Net cash used by financing activities	(36,402)	(31,047)	(45,533)
Effect of exchange rate changes on cash and cash equivalents	(333)	(1,558)	(708)
Net increase (decrease) in cash and cash equivalents	7,650	(18,122)	15,963
Cash and cash equivalents at beginning of year	26,508	44,630	28,667
Cash and cash equivalents at end of year	$ 34,158	26,508	44,630
Changes in current assets and liabilities:			
Accounts receivable, net	$ (1,786)	(27,960)	26,090
Costs and estimated earnings on long-term contracts, net	(231)	(1,985)	(1,663)
Inventories	(12,459)	5,926	(17,001)
Other assets	35	(2,397)	(714)
Accounts payable	(6,118)	10,597	(1,764)
Advance payments on long-term contracts, net	17,938	2,889	(4,627)
Accrued expenses	1,079	3,315	1,245
	$ (1,542)	(9,615)	1,566
Supplemental cash flow information:			
Interest paid	$ 1,959	3,536	7,425
Income taxes paid (including state & foreign)	21,895	21,378	22,144

See accompanying Notes to Consolidated Financial Statements.

F. CASH AND CASH EQUIVALENTS

Cash equivalents include temporary investments that are readily convertible into cash, such as money market funds.

G. ACCOUNTS RECEIVABLE

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

H. COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS

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

I. INVENTORIES

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

J. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed primarily on a straight-line basis over the estimated useful lives of the assets: buildings, 10-40 years; machinery and equipment, 3-10 years; and office furniture and equipment, 3-10 years. Leasehold improvements are amortized over the remaining term of the applicable lease or their estimated useful lives, whichever is shorter.

K. GOODWILL AND OTHER LONG-LIVED ASSETS

Goodwill represents the excess of purchase costs over the fair value of net identifiable assets acquired in business acquisitions. The Company accounts for goodwill as required by FASB ASC Topic 350, Intangibles — Goodwill & Other. Management annually reviews goodwill and other long-lived assets with indefinite useful lives for impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If the Company determines that the carrying value of the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

Fair value is measured based on a discounted cash flow method using a discount rate determined by Management to be commensurate with the risk inherent in the Company's current business model. Other intangible assets represent costs allocated to identifiable intangible assets, principally capitalized software, patents, trademarks, and technology rights. See Note 4 regarding goodwill and other intangible assets activity.

L. CAPITALIZED SOFTWARE

The costs incurred for the development of computer software that will be sold, leased, or otherwise marketed are charged to expense when incurred as research and development until technological feasibility has been established for the product. Technological feasibility is typically established upon completion of a detailed program design. Costs incurred after this point are capitalized on a project-by-project basis in accordance with FASB ASC Topic 985, Software. Capitalized costs consist of internal and external development costs. Upon general release of the product to customers, the Company ceases capitalization and begins amortization, which is calculated on a project-by-project basis as the greater of (1) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues for the product or (2) the straight-line method over the estimated economic life of the product. The Company generally amortizes the software development costs over a three-to-ten year period based upon the estimated future economic life of the product. Factors considered in determining the estimated future economic life of the product include anticipated future revenues, and changes in software and hardware technologies. Management annually reviews the carrying values of capitalized costs for impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If expected cash flows are insufficient to recover the carrying amount of the asset, then an impairment loss is recognized to state the asset at its net realizable value.

M. IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are

considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to dispose.

N. INCOME TAXES

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

O. RESEARCH AND DEVELOPMENT COSTS

Company-sponsored research and development costs include research and development and bid and proposal efforts related to the Company's products and services. Company-sponsored product development costs are charged to expense when incurred. Customer-sponsored research and development costs incurred pursuant to contracts are accounted for similarly to other program costs. Customer-sponsored research and development costs refer to certain situations whereby customers provide funding to support specific contractually defined research and development costs.

P. FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign operations are translated into U.S. dollars in accordance with FASB ASC Topic 830, Foreign Currency Matters. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income.

Q. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options and vesting of performance-accelerated restricted shares using the treasury stock method.

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

(In thousands)	**2011**	2010	2009
Weighted Average Shares Outstanding — Basic	**26,588**	26,450	26,216
Dilutive Options and Performance-Accelerated Restricted Stock	**315**	288	344
Shares — Diluted	**26,903**	26,738	26,560

Options to purchase 372,653 shares at prices ranging from $32.55-$54.88 were outstanding during the year ended September 30, 2011, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. Options to purchase 569,363 shares at prices ranging from $32.55-$54.88 were outstanding during the year ended September 30, 2010, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. Options to purchase 605,186 shares at prices ranging from $35.69-$54.88 were outstanding during the year ended September 30, 2009, but were not included in the respective computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in various periods through 2014.

Approximately 173,000, 214,000 and 180,000 restricted shares were outstanding but unearned at September 30, 2011, 2010 and 2009, respectively, and, therefore, were not included in the respective years' computations of diluted EPS.

R. 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. Share-based payment expense is measured at the grant date based on the fair value of the award and is recognized on a straight-line basis over the requisite service period (generally the vesting period of the award).

S. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss of $(19.2) million at September 30, 2011, consisted of $(24.5) million related to the pension net actuarial loss; and $5.3 million related to currency translation adjustments. Accumulated other comprehensive loss of $(14.8) million at September 30, 2010, consisted of $(20.1) million related to the pension net actuarial loss; $5.6 million related to currency translation adjustments; and $(0.3) million related to interest rate swaps.

T. DEFERRED REVENUE AND COSTS

Deferred revenue and costs are recorded when products or services have been provided but the criteria for revenue recognition have not been met. If there is a customer acceptance provision or there is uncertainty about customer acceptance, revenue and costs are deferred until the customer has accepted the product or service.

U. DERIVATIVE FINANCIAL INSTRUMENTS

All derivative financial instruments are reported on the balance sheet at fair value. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as a hedge and on the type of hedge. For each derivative instrument designated as a cash flow hedge, the effective portion of the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. For each derivative instrument designated as a fair value hedge, the gain or loss on the derivative and the offsetting gain or loss on the hedged item are recognized immediately in earnings. Regardless of type, a fully effective hedge will result in no net earnings impact while the derivative is outstanding. To the extent that any hedge is ineffective at offsetting cash flow or fair value changes in the underlying hedged item, there could be a net earnings impact.

V. NEW ACCOUNTING STANDARDS

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011 and will be applied retrospectively. ASU 2011-05 affects financial statement presentation only and will have no impact on the Company's results of operations.

2. Acquisitions

2011

On February 28, 2011, the Company acquired the capital stock of EMV Elektronische Messgerate Vertriebs - GmbH, together with its subsidiary EMSCREEN Electromagnetic Screening GmbH (collectively, EMV) for a purchase price of approximately $5 million, inclusive of cash acquired. EMV, with operations in Taufkirchen, Germany, provides turnkey systems and shielded environments for research, development and quality assurance testing of electronic equipment. EMV's operating results, since the date of acquisition, are included within the Test segment and the Company recorded approximately $4.8 million of goodwill as a result of the transaction.

2010

Effective July 31, 2010, the Company acquired the capital stock of Crissair, Inc. (Crissair) for a purchase price of approximately $27 million, net of cash acquired. Crissair, headquartered in Palmdale, California, is a manufacturer of high-quality hydraulic, fuel and pneumatic system components for the aerospace industry. The operating results for Crissair, since the date of acquisition, are included within the Filtration segment. The Company recorded approximately $9 million of goodwill as a result of the transaction, $4.3 million of trade names and $7.4 million of amortizable identifiable intangible assets consisting of customer relationships.

On September 3, 2010, the Company acquired the capital stock of Xtensible Solutions, Inc. (Xtensible) for a purchase price of approximately $4 million in cash plus contingent consideration. Xtensible is a provider of information management and integration solutions to the utility industry worldwide and its operating results, since the date of acquisition, are included within the USG segment (as part of Aclara). The agreement includes contingent consideration based on target revenues to be earned and paid out over the next three and a half years from

Amortization expense related to intangible assets with determinable lives was $12 million, $11.6 million and $19.2 million in 2011, 2010 and 2009, respectively. The decrease in amortization expense in 2010 as compared to 2009 was mainly due to the Company's TWACS NG software. During 2010, the Company re-evaluated the economic useful life of its TWACS NG software and concluded the remaining TWACS NG asset value has an expected remaining useful life of ten years, through 2019. The Company recorded $4.7 million, $4.5 million and $12.2 million of amortization expense related to Aclara PLS's TWACS NG software in 2011, 2010 and 2009, respectively. Patents are amortized over the life of the patents, generally 17 years. Capitalized software is amortized over the estimated useful life of the software, generally three to seven years. Customer relationships are generally amortized over twenty years. Intangible asset amortization for fiscal years 2012 through 2016 is estimated at approximately $12 million declining to $10.5 million per year.

5. Accounts Receivable

Accounts receivable, net of the allowance for doubtful accounts, consist of the following at September 30, 2011, and 2010:

(Dollars in thousands)	2011	2010
Commercial	$137,498	137,833
U.S. Government and prime contractors	6,585	3,265
Total	$144,083	141,098

6. Inventories

Inventories consist of the following at September 30, 2011, and 2010:

(Dollars in thousands)	2011	2010
Finished goods	$30,192	29,902
Work in process — including long-term contracts	23,139	18,743
Raw materials	43,655	34,389
Total	$96,986	83,034

7. Property, Plant and Equipment

Depreciation expense of property, plant and equipment from continuing operations for the years ended September 30, 2011, 2010 and 2009 was $11.5 million, $10.5 million and $11.1 million, respectively.

The Company leases certain real property, equipment and machinery under noncancelable operating leases. Rental expense under these operating leases for the years ended September 30, 2011, 2010 and 2009 was $8.1 million, $7.7 million and $8 million, respectively. Future aggregate minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2011 are:

The principal components of income tax expense (benefit) from continuing operations for the years ended September 30, 2011, 2010 and 2009 consist of:

(Dollars in thousands)	2011	2010	2009
Federal			
Current	$15,708	17,585	10,425
Deferred	5,578	4,199	(1,666)
State and local:			
Current	2,218	2,193	4,683
Deferred	580	230	(421)
Foreign:			
Current	3,104	1,130	1,179
Deferred	(2,731)	(518)	(333)
Total	$24,457	24,819	13,867

The actual income tax expense (benefit) from continuing operations for the years ended September 30, 2011, 2010 and 2009 differs from the expected tax expense for those years (computed by applying the U.S. Federal corporate statutory rate) as follows:

	2011	2010	2009
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local, net of Federal benefits	3.6	3.1	4.4
Foreign	(2.2)	(1.5)	(0.2)
Research credit	(2.0)	0.3	(7.5)
Domestic production deduction	(2.5)	(1.9)	(1.8)
Change in uncertain tax positions	(0.5)	0.1	(7.9)
Other, net	0.4	0.5	—
Effective income tax rate	31.8%	35.6%	22.0%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 2011, and 2010 are presented below.

(Dollars in thousands)	2011	2010
Deferred tax assets:		
Inventories, long-term contract accounting, contract cost reserves and other	$ 6,029	3,331
Pension and other postretirement benefits	11,341	12,178
Net operating loss carryforward — domestic	687	813
Net operating loss carryforward — foreign	3,419	2,018
Capital loss carryforward	240	254
Other compensation-related costs and other cost accruals	17,316	14,196
State credit carryforward	1,240	1,545
Total deferred tax assets	40,272	34,335
Deferred tax liabilities:		
Plant and equipment, depreciation methods, acquisition asset allocations, and other	(104,082)	(96,300)
Net deferred tax liabilities before valuation allowance	(63,810)	(61,965)
Less valuation allowance	(873)	(1,613)
Net deferred tax liabilities	$(64,683)	(63,578)

The Company has a foreign net operating loss carryforward of $11.4 million at September 30, 2011, which reflects tax loss carryovers in Brazil, Germany and the United Kingdom. These losses have no expiration date. The Company also has net state research and other credit carryforwards of $1.2 million of which $0.6 million expires between 2022 and 2026. The remaining $0.6 million does not have an expiration date.

At September 30, 2011, the Company has established a valuation allowance of $0.2 million against the capital loss carryforward generated in 2008, as such loss carryforward may not be realized in future periods. In addition, the Company has established a valuation allowance against certain net operating loss (NOL) carryforwards in foreign jurisdictions which may not be realized in future periods. The valuation allowance established against

the foreign NOL carryforwards was $0.7 million and $1.4 million at September 30, 2011, and 2010, respectively. The Company classifies its valuation allowance related to deferred taxes on a pro rata basis.

The Company's foreign subsidiaries have accumulated unremitted earnings of $32.2 million and cash of $18.6 million at September 30, 2011. No deferred taxes have been provided on the accumulated unremitted earnings because these funds are not needed to meet the liquidity requirements of the Company's U.S. operations and it is the Company's intention to reinvest these earnings indefinitely. In the event these foreign entities' earnings were distributed, it is estimated that U.S. taxes, net of available foreign tax credits, of approximately $5.2 million would be due, which would correspondingly reduce the Company's net earnings. No significant portion of the Company's foreign subsidiaries' earnings was taxed at a very low tax rate.

As of September 30, 2011, the Company had $3.6 million of unrecognized benefits (see table below), of which $3.5 million, net of Federal benefit, if recognized, would affect the Company's effective tax rate.

A reconciliation of the Company's unrecognized tax benefits for the years ended September 30, 2011, and 2010 is presented in the table below:

(Dollars in millions)	2011	2010
Balance as of October 1,	$ 3.2	3.3
Increases related to prior year tax positions	0.7	0.2
Decreases related to prior year tax positions	—	(0.2)
Increases related to current year tax positions	0.2	0.1
Lapse of statute of limitations	(0.5)	(0.2)
Balance as of September 30,	$ 3.6	3.2

The Company anticipates a $1.7 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 September 30, 2011, 2010 and 2009, the Company had accrued interest related to uncertain tax positions of $0.2 million, $0.1 million and $0.1 million, respectively, net of Federal income tax benefit, on its Consolidated Balance Sheet. No significant penalties have been accrued.

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 timing of the utilization of the Company's net operating loss, the U.S. Federal tax years for the periods ended September 30, 1998, and forward remain subject to income tax examination. Various state tax years for the periods ended September 30, 2007, and forward remain subject to income tax examinations. The Company is subject to income tax in many jurisdictions outside the United States, none of which is individually material to the Company's financial position, statements of cash flows, or results of operations.

9. Debt

Debt consists of the following at September 30, 2011, and 2010:

(Dollars in thousands)	2011	2010
Revolving credit facility, including current portion	$125,000	154,000
Current portion of long-term debt	(50,000)	(50,000)
Total long-term debt, less current portion	$75,000	104,000

At September 30, 2011, the Company had approximately $190 million available to borrow under the credit facility, plus a $50 million increase option, in addition to $34.2 million cash on hand. The Company classified $50 million as the current portion of long-term debt as of September 30, 2011, as the Company intends to repay this amount within the next twelve months; however, the Company has no contractual obligation to repay such amount during the next twelve months. The Company's ability to access the additional $50 million increase option of the credit facility is subject to acceptance by participating or other outside banks. The credit facility has a maturity date of November 30, 2012.

The credit facility requires, as determined by certain financial ratios, a facility fee ranging from 15 to 25 basis points per annum on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the London Interbank Offered Rate (LIBOR) or based on the prime rate, at the Company's election. The facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility include a leverage ratio and an interest coverage ratio. During 2011 and 2010, the maximum aggregate short-term borrowings at any month-end were $159 million and $180.4 million, respectively; the average aggregate short-term borrowings outstanding based on month-end balances were $143 million and $170.6 million, respectively; and the weighted average interest rates were 1.40%, 1.87%, and 3.26% for 2011, 2010 and 2009, respectively. The letters of credit issued and outstanding under the credit facility totaled $15 million and $13 million at September 30, 2011, and 2010, respectively.

10. Capital Stock

The 29,956,904 and 29,839,343 common shares as presented in the accompanying Consolidated Balance Sheets at September 30, 2011, and 2010 represent the actual number of shares issued at the respective dates. The Company held 3,320,926 and 3,338,986 common shares in treasury at September 30, 2011, and 2010, respectively.

In July 2010, the Company's Board of Directors authorized an open market common stock repurchase program of the Company's shares at a value not to exceed $30 million, subject to market conditions and other factors which covers the period through September 30, 2012. There were no stock repurchases during 2011, 2010 or 2009.

11. 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. During fiscal 2004, the Board of Directors authorized and the shareholders approved, the 2004 Incentive Compensation Plan, which states, in part, that on February 5, 2004, there shall be 2,000,000 shares added to the authorized shares allocated for the grant of stock options, stock appreciation rights, performance-accelerated restricted stock, or other full value awards. Of these, shares up to 600,000 may be utilized for performance-accelerated restricted stock or other full value awards. At September 30, 2011, the maximum number of full value shares available for issue under the 2004 Incentive Compensation Plan was 354,738.

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. The Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award.

The fair value of each option award is estimated as of the date of grant using the 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 utilizes historical company data to develop its expected term assumption. 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. There were no stock option grants during 2011. 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 2010 and 2009, respectively: expected dividend yield of 0.9% and 0%; expected volatility of 48.1% and 39.3%; risk-free interest rate of 1.9% and 1.9%; and expected term of 3.9 years and 3.8 years.

are primarily valued by reference to quoted prices of markets that are not active. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash The carrying value of cash represents fair value as it consists of actual currency, and is classified as Level 1.

Common Equity The plans' common and preferred stock funds primarily consist of investments in listed U.S. and international company stock. The stock investments are valued using quoted prices from the various public markets. Most equity securities trade on formal exchanges, both domestic and foreign (e.g. NYSE, NASDAQ, LSE), and can be accurately described as active markets. The observable valuation inputs are unadjusted quoted prices that represent active market trades and are classified as Level 1 or Level 2.

Fixed Income Fixed income funds consist of investments in U.S. and foreign corporate credit, U.S. and foreign government issues (including agencies and mortgages), U.S. Treasuries, U.S. state and municipal securities and asset-backed securities. These investments are generally priced by institutional bids, which reflect estimated values based on underlying model frameworks at various dealers and vendors, or are formally listed on exchanges, where dealers exchange bid and ask offers to arrive at most executed transaction prices. These investments are classified as Level 1 or Level 2.

Real Estate The plan invests in U.S. real estate through indirect ownership entities, which are structured as limited partnerships or private real estate investment trusts (REITs). These real estate investments are classified as Level 1 or Level 2.

FASB ASC 825, Financial Instruments, establishes a three-level hierarchy for disclosure of fair value measurements, based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

EXPECTED CASH FLOWS

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

(Dollars in millions)	Pension Benefits	Other Benefits
Expected Employer Contributions — 2012	$ 7.3	0.1
Expected Benefit Payments		
2012	3.8	0.1
2013	4.3	0.1
2014	4.1	0.1
2015	4.3	—
2016	4.7	—
2017-2021	$24.9	0.3

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 2010, the Company entered into a $60 million one-year amortizing forward interest rate swap effective October 5, 2010. This interest rate swap expired in October 2011. All derivative instruments are reported on the balance sheet at fair value. The derivative instruments are 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 50% of the Company's total borrowings were effectively fixed as of September 30, 2011. 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 September 30, 2011.

(Dollars in thousands)	Notional Amount	Average Rec Rate	Average Pay Rate	Fair Value
Interest rate swap	$60,000	0.22%	1.10%	$ (3)

The Company's interest rate swap and contingent consideration liabilities are presented below as of September 30, 2011:

(Dollars in millions)	Level 1	Level 2	Level 3	Total
Liabilities				
Interest rate swap	$ —	$ —	$ —	$ —
Contingent consideration	—	—	4.8	4.8

14. Other Financial Data

Items charged to operations during the years ended September 30, 2011, 2010 and 2009 included the following:

(Dollars in thousands)	2011	2010	2009
Salaries and wages (including fringes)	$187,214	160,780	153,416
Maintenance and repairs	4,530	3,440	3,807
Research and development (R&D) costs:			
Company-sponsored	33,574	32,199	31,974
Customer-sponsored	8,527	4,035	2,937
Total R&D	$ 42,101	36,234	34,911
Other engineering costs	11,490	13,250	14,370
Total R&D and other engineering costs	$ 53,591	49,484	49,281
As a % of net sales	7.7%	8.1%	8.0%

A reconciliation of the changes in accrued product warranty liability for the years ended September 30, 2011, 2010, and 2009 is as follows:

(Dollars in thousands)	2011	2010	2009
Balance as of October 1,	$3,877	4,370	2,788
Additions charged to expense	3,275	1,813	4,086
Deductions	(3,318)	(2,306)	(2,504)
Balance as of September 30,	$3,834	3,877	4,370

15. Business Segment Information

The Company is organized based on the products and services it offers. Under this organizational structure, the Company has three reporting segments: Utility Solutions Group (USG), RF Shielding and Test (Test) and Filtration/Fluid Flow (Filtration).

The USG segment's operations consist of: Aclara Power-Line Systems Inc. (Aclara PLS); Aclara RF Systems Inc. (Aclara RF); Aclara Software Inc. (Aclara Software) and Doble Engineering Company (Doble). Aclara is a proven supplier of special purpose fixed-network communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. Aclara's STAR® Network system and TWACS® technology provide advanced radio-frequency (RF) and power-line (PLS) based fixed-network technologies proven to meet the wide-ranging data communications requirements of utilities worldwide. Aclara Software applications add value across the utility enterprise, addressing meter and energy data management, distribution planning and operations, customer service, revenue management and integration solutions. Doble provides high-end, intelligent diagnostic test solutions for the electric power delivery industry and is a leading supplier of power factor and partial discharge testing instruments used to assess the integrity of high-voltage power delivery equipment.

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 an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy. The EMC Group also manufactures radio frequency (RF) shielding products and components used by manufacturers of medical equipment, communications systems, electronic products, and shielded rooms for high-security data processing and secure communication.

The Filtration segment's operations consist of: PTI Technologies Inc., VACCO Industries, Crissair, Inc. and TEQ (formerly named TekPackaging LLC). The companies within this segment design and manufacture specialty filtration products including hydraulic filter elements used in commercial aerospace applications, unique filter mechanisms used in micro-propulsion devices for satellites and custom designed filters for manned and unmanned aircraft and submarines.

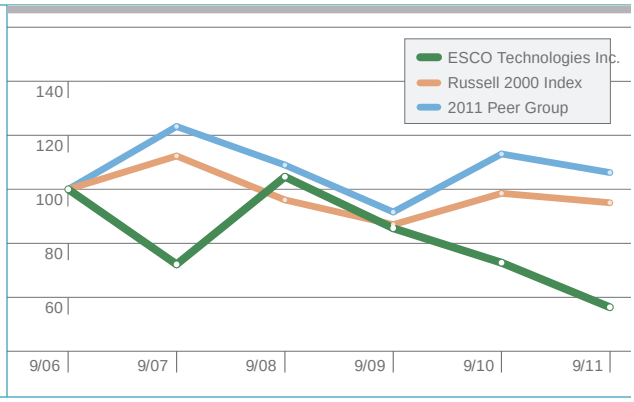
Accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to the Consolidated Financial Statements. The operating units within each reporting segment have been aggregated because of similar economic characteristics and meet the other aggregation criteria of FASB ASC 280.

The Company evaluates the performance of its operating units based on EBIT, which is defined as: Earnings Before Interest and Taxes. Intersegment sales and transfers are not significant. Segment assets consist primarily of customer receivables, inventories, capitalized software and fixed assets directly associated with the production processes of the segment. Segment depreciation and amortization is based upon the direct assets listed above. Information in the tables below is presented on a Continuing Operations basis and excludes Discontinued Operations.

(Dollars in millions, except per share amounts)	2011	2010	2009	2008	2007
For years ended September 30:					
Net sales	$693.7	607.5	619.1	613.6	437.4
Net earnings from continuing operations	52.5	44.8	49.3	47.6	30.8
Net earnings (loss) from discontinued operations	—	—	0.1	(0.9)	2.9
Net earnings	52.5	44.8	49.4	46.7	33.7
Earnings (loss) per share:					
Basic:					
Continuing operations	$1.97	1.70	1.88	1.84	1.19
Discontinued operations	—	—	—	(0.04)	0.11
Net earnings	$1.97	1.70	1.88	1.80	1.30
Diluted:					
Continuing operations	$1.95	1.68	1.86	1.81	1.17
Discontinued operations	—	—	—	(0.03)	0.11
Net earnings	$1.95	1.68	1.86	1.78	

Performance Graph

The adjacent graph presents a comparison of the cumulative total shareholder return on the Company's common stock as measured against the Russell 2000 Index and a peer group (the "2011 Peer Group"). The Company is not a component of the 2011 Peer Group, but it is a component of the Russell 2000 Index. The measurement period begins on September 30, 2006 and measures at each September 30 thereafter. These figures assume that all dividends, if any, paid over the measurement period were reinvested, and the starting value of each index and the investments in the Company's common stock were $100 at the close of trading on September 30, 2006.



	9/06	9/07	9/08	9/09	9/10	9/11
ESCO Technologies Inc.	**100.00**	**72.20**	**104.63**	**85.58**	**72.81**	**56.32**
Russell 2000 Index	100.00	112.34	96.07	86.90	98.50	95.02
2011 Peer Group	100.00	123.25	108.98	91.58	113.07	106.20

The 2011 Peer Group is the same peer group included in the performance graph in last year's Annual Report designated the "2010 Peer Group". The 2011 Peer Group is comprised of eight companies that correspond to the Company's three industry segments as follows: Utility Solutions Group segment (50% of the Company's 2011 total revenue) — Badger Meter Inc., Itron Inc., Comverge, Inc., Echelon Corporation and Roper Industries Inc.; Test segment (26% of the Company's 2011 total revenue) — LeCroy Corporation; and Filtration/Fluid Flow segment (24% of the Company's 2011 total revenue) — Pall Corporation and Clarcor Inc.

In calculating the composite return of the 2011 Peer Group, the return of each company comprising the 2011 Peer Group is weighted by (a) its market capitalization in relation to the other companies in its corresponding Company industry segment, and (b) the percentage of the Company's 2011 total revenue represented by its corresponding Company industry segment.

SHAREHOLDERS' ANNUAL MEETING

The Annual Meeting of the Shareholders of ESCO Technologies Inc. will be held at 9:30 a.m. Thursday, February 2, 2012, at the headquarters of ETS-Lindgren L.P., 1301 Arrow Point Drive, Cedar Park, Texas 78613-6936, a subsidiary of the Company. You may access this Annual Report as well as the Notice of the meeting and the Proxy Statement on the Company's Annual Meeting web site at http://www.cfpproxy.com/5157.

CERTIFICATIONS

Pursuant to New York Stock Exchange (NYSE) requirements, the Company submitted to the NYSE the annual certifications, dated February 24, 2011 and February 19, 2010, by the Company's chief executive officer that he was not aware of any violations by the Company of NYSE's corporate governance listing standards. In addition, the Company filed with the Securities and Exchange Commission the certifications by the Company's chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the Company's Forms 10-K for its fiscal years ended September 30, 2011 and September 30, 2010.

10-K REPORT

A copy of the Company's 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders without charge. Direct your written request to Kate Lowrey, Director of Investor Relations, ESCO Technologies Inc., 9900A Clayton Road, St. Louis, Missouri 63124.

The Form 10-K is also available on the Company's web site at www.escotechnologies.com.

INVESTOR RELATIONS

Additional investor-related information may be obtained by contacting the Director of Investor Relations at (314) 213-7277 or toll free at (888) 622-3726. Information is also available through the Company's web site at www.escotechnologies.com or via e-mail to klowrey@escotechnologies.com.

TRANSFER AGENT AND REGISTRAR

Shareholder inquiries concerning lost certificates, transfer of shares or address changes should be directed to:

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

CAPITAL STOCK INFORMATION

ESCO Technologies Inc. common stock shares (symbol ESE) are listed on the New York Stock Exchange. There were approximately 2,370 holders of record of shares of common stock at November 16, 2011.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

MANAGEMENT AND BOARD OF DIRECTORS

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2 Audit and Finance Committee

3 Human Resources and Compensation Committee

4 Nominating and Corporate Governance Committee

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ESCO Technologies Inc.
9900A Clayton Road
St. Louis, MO 63124
www.escotechnologies.com