

REFINITIV

DELTA REPORT

10-Q

ESE - ESCO TECHNOLOGIES INC
10-Q - DECEMBER 31, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1133
CHANGES	170
DELETIONS	394
ADDITIONS	569

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **JUNE 30, DECEMBER 31, 2023**

OR

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

COMMISSION FILE NUMBER 1-10596

ESCO TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

MISSOURI
(State or other jurisdiction of
incorporation or organization)

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

9900A CLAYTON ROAD
ST. LOUIS, MISSOURI
(Address of principal executive offices)

63124-1186
(Zip Code)

(314) 213-7200

(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	ESE	New York Stock Exchange

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

Class	Shares outstanding at July 31, 2023 January 31, 2024
Common stock, \$.01 par value per share	25,782,563 25,798,271

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended	
	June 30,	
	2023	2022
Net sales	\$ 248,749	219,066
Costs and expenses:		
Cost of sales	147,274	134,454
Selling, general and administrative expenses	55,376	47,479
Amortization of intangible assets	7,132	6,406
Interest expense, net	2,495	1,331
Other expenses (income), net	966	(106)
Total costs and expenses	213,243	189,564
Earnings before income taxes	35,506	29,502
Income tax expense	7,563	6,329
Net earnings	\$ 27,943	23,173
Earnings per share:		
Basic - Net earnings	1.08	0.90
Diluted - Net earnings	\$ 1.08	0.89
	Three Months Ended	
	December 31,	
	2023	2022
Net sales	\$218,314	205,501
Costs and expenses:		
Cost of sales	134,151	126,383
Selling, general and administrative expenses	53,968	51,302
Amortization of intangible assets	7,868	6,861

Interest expense, net	2,667	1,658
Other expenses, net	206	398
Total costs and expenses	<u>198,860</u>	<u>186,602</u>
Earnings before income taxes	19,454	18,899
Income tax expense	4,285	4,172
Net earnings	<u>\$ 15,169</u>	<u>14,727</u>
Earnings per share:		
Basic - Net earnings	<u>\$ 0.59</u>	<u>0.57</u>
Diluted - Net earnings	<u>\$ 0.59</u>	<u>0.57</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	June 30,	
	2023	2022
Net sales	\$ 683,386	601,004
Costs and expenses:		
Cost of sales	415,953	371,134
Selling, general and administrative expenses	160,555	142,073
Amortization of intangible assets	21,023	19,383
Interest expense, net	6,422	3,084
Other expenses (income), net	1,678	(677)
Total costs and expenses	<u>605,631</u>	<u>534,997</u>
Earnings before income taxes	77,755	66,007
Income tax expense	17,207	14,727
Net earnings	<u>\$ 60,548</u>	<u>51,280</u>
Earnings per share:		
Basic — Net earnings	<u>\$ 2.35</u>	<u>1.98</u>
Diluted — Net earnings	<u>\$ 2.34</u>	<u>1.97</u>

See accompanying notes to condensed consolidated financial statements.

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ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in thousands)

	Three Months Ended		Nine Months Ended		Three Months Ended	
	June 30,		June 30,		December 31,	
	2023	2022	2023	2022	2023	2022
Net earnings	\$ 27,943	23,173	60,548	51,280	\$15,169	14,727
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	(821)	(11,905)	12,926	(17,216)	9,414	11,513
Total other comprehensive income (loss), net of tax	(821)	(11,905)	12,926	(17,216)	9,414	11,513
Comprehensive income	\$ 27,122	11,268	73,474	34,064	\$24,583	26,240

See accompanying notes to condensed consolidated financial statements.

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

	June 30,	September 30,	December 31,	September 30,
	2023	2022	2023	2023
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 56,052	97,724	\$ 51,396	41,866
Accounts receivable, net of allowance for credit losses of \$3,112 and \$2,612, respectively	192,146	164,645		
Contract assets	128,284	125,154		
Accounts receivable, net of allowance for credit losses of \$2,274 and \$2,264, respectively			194,395	198,557
Contract assets, net			138,393	138,633
Inventories	192,493	162,403	202,577	184,067
Other current assets	24,847	22,696	16,441	17,972
Total current assets	593,822	572,622	603,202	581,095
Property, plant and equipment, net of accumulated depreciation of \$171,569 and \$165,322, respectively	155,337	155,973		
Intangible assets, net of accumulated amortization of \$196,951 and \$175,928, respectively	398,418	394,464		
Property, plant and equipment, net of accumulated depreciation of \$180,909 and \$174,698, respectively			159,262	155,484
Intangible assets, net of accumulated amortization of \$212,750 and \$204,881, respectively			422,053	392,124
Goodwill	505,590	492,709	537,601	503,177
Operating lease assets	40,314	29,150	38,685	39,839
Other assets	10,028	9,538	11,723	11,495
Total assets	\$ 1,703,509	1,654,456	\$ 1,772,526	1,683,214
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current maturities of long-term debt	\$ 20,000	20,000		

Current maturities of long-term debt and short-term borrowings			\$ 20,000	20,000
Accounts payable	76,761	78,746	77,960	86,973
Contract liabilities	122,526	125,009		
Contract liabilities, net			121,149	112,277
Accrued salaries	38,428	40,572	33,944	43,814
Accrued other expenses	51,236	53,802	51,640	51,587
Total current liabilities	308,951	318,129	304,693	314,651
Deferred tax liabilities	78,585	82,023	83,802	75,531
Non-current operating lease liabilities	36,815	24,853	35,709	36,554
Other liabilities	44,115	48,294	42,228	43,336
Long-term debt	128,000	133,000	152,000	82,000
Total liabilities	596,466	606,299	618,432	552,072
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 30,751,449 and 30,707,748 shares, respectively	308	307		
Common stock, par value \$.01 per share, authorized 50,000,000 shares, issued 30,800,586 and 30,781,699 shares, respectively			308	308
Additional paid-in capital	305,555	301,553	305,283	304,850
Retained earnings	959,381	905,022	1,002,420	989,315
Accumulated other comprehensive loss, net of tax	(18,839)	(31,764)	(14,555)	(23,969)
	1,246,405	1,175,118	1,293,456	1,270,504
Less treasury stock, at cost: 4,995,414 and 4,854,997 common shares, respectively	(139,362)	(126,961)		
Less treasury stock, at cost: 4,995,414 and 4,995,414 common shares, respectively			(139,362)	(139,362)
Total shareholders' equity	1,107,043	1,048,157	1,154,094	1,131,142
Total liabilities and shareholders' equity	\$ 1,703,509	1,654,456	\$ 1,772,526	1,683,214

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	June 30,	
	2023	2022
Cash flows from operating activities:		
Net earnings	\$ 60,548	51,280
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	37,699	36,247
Stock compensation expense	7,007	5,318
Changes in assets and liabilities	(72,346)	(60,172)
Effect of deferred taxes	(3,706)	9,020
Net cash provided by operating activities	29,202	41,693
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(17,694)	(15,592)
Additions to capitalized software and other	(9,263)	(9,359)

Capital expenditures	(16,993)	(25,893)
Net cash used by investing activities	(43,950)	(50,844)
Cash flows from financing activities:		
Proceeds from long-term debt and short-term borrowings	88,000	111,000
Principal payments on long-term debt and short-term borrowings	(93,000)	(64,000)
Purchases of common stock into treasury	(12,401)	(19,878)
Dividends paid	(6,189)	(6,219)
Other	(2,557)	(2,787)
Net cash (used) provided by financing activities	(26,147)	18,116
Effect of exchange rate changes on cash and cash equivalents	(777)	(4,178)
Net (decrease) increase in cash and cash equivalents	(41,672)	4,787
Cash and cash equivalents, beginning of period	97,724	56,232
Cash and cash equivalents, end of period	\$ 56,052	61,019
Supplemental cash flow information:		
Interest paid	\$ 5,564	1,685
Income taxes paid (including state and foreign)	18,313	5,574
Three Months Ended		
December 31,		
	2023	2022
Cash flows from operating activities:		
Net earnings	\$ 15,169	14,727
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	13,452	12,367
Stock compensation expense	2,180	1,860
Changes in assets and liabilities	(22,539)	(36,920)
Effect of deferred taxes	484	(1,042)
Net cash provided (used) by operating activities	8,746	(9,008)
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(56,179)	—
Additions to capitalized software	(2,942)	(2,795)
Capital expenditures	(7,848)	(4,791)
Net cash used by investing activities	(66,969)	(7,586)
Cash flows from financing activities:		
Proceeds from long-term debt and short-term borrowings	99,000	17,000
Principal payments on long-term debt and short-term borrowings	(29,000)	(38,000)
Dividends paid	(2,064)	(2,067)
Purchases of common stock into treasury	—	(4,147)
Other	(1,432)	(2,412)
Net cash provided (used) by financing activities	66,504	(29,626)
Effect of exchange rate changes on cash and cash equivalents	1,249	418
Net increase (decrease) in cash and cash equivalents	9,530	(45,802)
Cash and cash equivalents, beginning of period	41,866	97,724
Cash and cash equivalents, end of period	\$ 51,396	51,922
Supplemental cash flow information:		
Interest paid	\$ 2,520	1,875
Income taxes paid	246	200

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements, in the opinion of management, include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required for annual financial statements by accounting principles generally accepted in the United States of America (GAAP).

The Company's results for the three-month period ended **June 30, 2023** **December 31, 2023** are not necessarily indicative of the results for the entire **2023** **2024** fiscal year. References to the **third** **first** quarters of **2023** **2024** and **2022** **2023** represent the fiscal quarters ended **June 30, 2023** **December 31, 2023** and 2022, respectively. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

2. EARNINGS PER SHARE (EPS)

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

	Three Months Ended June 30,		Nine Months Ended June 30,		Three Months Ended December 31,	
	2023	2022	2023	2022	2023	2022
Weighted Average Shares Outstanding — Basic	25,757	25,856	25,808	25,959	25,797	25,863
Dilutive Restricted Shares	70	94	82	91	49	80
Adjusted Shares — Diluted	25,827	25,950	25,890	26,050	25,846	25,943

3. ACQUISITION

On **February 1, 2023** **November 9, 2023**, the Company acquired **CMT Materials, LLC** and its affiliate **Engineered Syntactic Systems, LLC (CMT) MPE Limited (MPE)**, based in the United Kingdom, for a purchase price of approximately **\$18 million** **\$56.2 million**, net of cash acquired. **CMT, based in Attleboro, Massachusetts, MPE** is a **supplier** **leading global manufacturer** of **syntactic materials** **high-performance EMC/EMP filters and capacitor products** for **buoyancy** **military, utility, telecommunication**, and **specialty** **other critical infrastructure** applications. Since the date of acquisition, the operating results for the **CMT MPE** business have been included as part of **Globe ETS-Lindgren** in the **A&D Test** segment. The acquisition date fair value of the assets acquired and liabilities assumed primarily were as follows: approximately **\$1.7 million** **\$0.4 million** of accounts receivable, **\$3.0 million** **\$1.1 million** of inventory, **\$1.3 million** **\$1.7 million** of property, plant and equipment, **\$1.2 million** **\$0.7 million** of accounts payable and accrued expenses, **\$7.3 million** **\$7.8 million** of deferred tax liabilities, and **\$31.1 million** of identifiable intangible assets, mainly consisting of customer relationships totaling **\$6.2 million** **\$29.1 million**. The acquired goodwill of **\$5.6 million** **\$30.3 million** related to excess value associated with opportunities to expand the services and products that the Company can offer to its customers. The Company **anticipates** **does not anticipate** that the goodwill will be deductible for tax purposes. **The Company received a \$0.2 million working capital settlement during the third quarter of 2023.**

4. SHARE-BASED COMPENSATION

The Company provides compensation benefits to certain key employees under several share-based plans providing for performance-accelerated and/or time-vested restricted stock unit awards, and to non-employee directors under a **non-employee directors** **separate** compensation plan.

Performance-Accelerated Restricted Stock Unit (PARS) Awards, and Time-Vested Restricted Stock Unit (RSU) Awards, and Performance Share Unit (PSU) Awards

Compensation expense related to **the PARS/RSU** **these** awards was **\$1.4 million** **\$1.9 million** and **\$6.0 million** **\$1.6 million** for the **three and nine-month** **three-month** periods ended **June 30, 2023, respectively, December 31, 2023** and **\$1.6 million** and **\$4.4 million** for the corresponding periods in 2022. **As 2022, respectively. There were 234,036 non-vested shares outstanding as of June 30, 2023, there were 196,648 unvested stock units outstanding. December 31, 2023.**

Non-Employee Directors Plan

Compensation expense related to the non-employee director grants was \$0.3 million and \$1.0 million \$0.3 million for the three and nine-month three-month periods ended June 30, 2023, respectively, December 31, 2023 and \$0.3 million and \$0.9 million for the corresponding periods in 2022, 2022, respectively.

The total share-based compensation cost that has been recognized in the results of operations and included within selling, general and administrative expenses (SG&A) was \$1.7 million \$2.2 million and \$7.0 million \$1.9 million for the three and nine-month three-month periods ended June 30, 2023, respectively, December 31, 2023 and \$1.9 million and \$5.3 million for the corresponding periods in 2022, 2022, respectively. The total income tax benefit recognized in results of operations for share-based compensation arrangements was \$0.2 million and \$0.9 million \$0.1 million for the three and nine-month three-month periods ended June 30, 2023, respectively, December 31, 2023 and \$0.4 million and \$1.0 million for the corresponding periods in 2022, 2022, respectively. As of June 30, 2023, December 31, 2023 there was \$10.7 million \$15.5 million of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a remaining weighted-average period of 1.8 2.0 years.

5. INVENTORIES

Inventories consist of the following:

(In thousands)	June 30, 2023	September 30, 2022	December 31, 2023	September 30, 2023
Finished goods	\$ 37,082	32,471	\$ 37,996	34,577
Work in process	48,579	38,492	54,656	42,178
Raw materials	106,832	91,440	109,925	107,312
Total inventories	\$ 192,493	162,403	\$ 202,577	184,067

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Included on the Company's Consolidated Balance Sheets at June 30, 2023 December 31, 2023 and September 30, 2022 September 30, 2023 are the following intangible assets gross carrying amounts and accumulated amortization: amortization from continuing operations:

(Dollars in thousands)	June 30, 2023	September 30, 2022	December 31, 2023	September 30, 2023
Goodwill	\$ 505,590	492,709	\$ 537,601	503,177
Intangible assets with determinable lives:				
Patents				
Gross carrying amount	\$ 2,433	2,353	\$ 2,517	2,516
Less: accumulated amortization	1,186	1,091	1,253	1,218
Net	\$ 1,247	1,262	\$ 1,264	1,298
Capitalized software				
Gross carrying amount	\$ 118,529	106,583	\$ 125,237	121,883
Less: accumulated amortization	77,308	70,476	83,709	80,774
Net	\$ 41,221	36,107	\$ 41,528	41,109
Customer relationships				
Gross carrying amount	\$ 298,110	287,447	\$ 328,624	296,927
Less: accumulated amortization	109,186	96,921	117,755	113,311
Net	\$ 188,924	190,526	\$ 210,869	183,616

Other				
Gross carrying amount	\$	14,345	13,985	\$ 15,216 14,232
Less: accumulated amortization		9,271	7,440	10,033 9,578
Net	\$	5,074	6,545	\$ 5,183 4,654
Intangible assets with indefinite lives:				
Trade names	\$	161,952	160,024	\$ 163,209 161,447

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The changes in the carrying amount of goodwill attributable to each business segment for the **nine** months ended **June 30, 2023** is **December 31, 2023** are as follows:

(Dollars in millions)	USG	Test	Aerospace & Defense	Total	USG	Test	Aerospace & Defense	Total
Balance as of September 30, 2022	\$ 348.7	34.0	110.0	492.7				
Acquisition activity and adjustments	—	—	5.6	5.6				
Balance as of September 30, 2023					\$353.6	34.0	115.6	503.2
Acquisition activity					—	30.3	—	30.3
Foreign currency translation	7.3	—	—	7.3	3.3	0.8	—	4.1
Balance as of June 30, 2023	\$ 356.0	34.0	115.6	505.6				
Balance as of December 31, 2023					\$356.9	65.1	115.6	537.6

7. BUSINESS SEGMENT INFORMATION

The Company is organized based on the products and services that it offers and classifies its **continuing** business operations in three reportable segments for financial reporting purposes: Aerospace & Defense (**A&D**), Utility Solutions Group (**USG**), and RF **Shielding and Test & Measurement** (**Test**).

The **Aerospace & Defense A&D** segment's operations consist of PTI Technologies Inc. (PTI), VACCO Industries (VACCO), Crissair, Inc. (Crissair), **Mayday Manufacturing Co. (Mayday)**, Globe Composite Solutions, LLC (Globe) and **Westland Technologies Inc. (Westland)** **Mayday Manufacturing Co. (Mayday)**. The companies within this segment primarily design and manufacture specialty filtration, fluid control and naval products, including hydraulic filter elements and fluid control devices used in aerospace and defense applications; unique filter mechanisms used in micro-propulsion devices for satellites, custom designed filters for manned aircraft and **submarines; submarines**, products and systems to reduce vibration and/or acoustic signatures and otherwise reduce or obscure a vessel's signature, and other communications, sealing, surface control and hydrodynamic related applications to enhance U.S. Navy maritime survivability; precision-tolerance machined components for the aerospace and defense industry; **and** metal processing **services; services**; and **miniature electro-explosive devices utilized in mission-critical defense and aerospace applications.**

The USG segment's operations consist primarily of Doble Engineering Company and related subsidiaries including Morgan Schaffer and Altanova (collectively, Doble), and NRG Systems, Inc. (NRG). Doble is an industry leader in the development, manufacture and delivery of diagnostic testing **and data management** solutions that enable electric power grid operators to assess the integrity of high voltage power delivery equipment. It combines three core elements for customers – diagnostic test and condition monitoring instruments, expert consulting, and testing services – and provides access to its large reserve of related empirical knowledge. NRG is a global market leader in the design and manufacture of decision support tools for the renewable energy industry, primarily wind and solar.

The Test segment's operations consist primarily of ETS-Lindgren Inc. and related subsidiaries (ETS-Lindgren). ETS-Lindgren is an industry leader in designing and manufacturing products **which provide its customers with the ability and systems to identify**, measure and **contain magnetic, electromagnetic control RF** and acoustic energy. **ETS-Lindgren also manufactures radio frequency shielding products** **It serves the acoustics, medical, health and components used by manufacturers safety, electronics, wireless communications, automotive and defense markets, supplying a broad range of medical equipment, communications turnkey systems, electronic products, including RF test facilities and measurement systems, acoustic test enclosures, RF and magnetically shielded rooms for high-security data processing and secure communication. communication facilities, and providing the design, program management, installation and integration services required to successfully complete these types of facilities. It also provides a broad range of**

components including RF absorptive materials, filters, antennas, field probes, test cells, proprietary measurement software and other test accessories required to perform a variety of tests and measurements, and offers a variety of services including calibration and product tests.

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Management evaluates and measures the performance of its reportable segments based on "Net Sales" and "EBIT", which are detailed in the table below. EBIT is defined as earnings before interest and taxes.

(In thousands)	Three Months		Nine Months		Three Months	
	Ended June 30,		Ended June 30,		Ended December 31,	
	2023	2022	2023	2022	2023	2022
NET SALES						
Aerospace & Defense	\$ 103,469	92,606	285,434	247,671	\$ 94,733	82,983
USG	89,966	67,201	240,172	194,877	82,984	71,045
Test	55,314	59,259	157,780	158,456	40,597	51,473
Consolidated totals	<u>\$ 248,749</u>	<u>219,066</u>	<u>683,386</u>	<u>601,004</u>	<u>\$218,314</u>	<u>205,501</u>
EBIT						
Aerospace & Defense	\$ 21,665	20,738	52,996	45,042	\$ 16,663	12,536
USG	20,351	13,135	50,543	37,840	17,625	16,131
Test	8,643	8,354	21,280	20,813	1,779	5,411
Corporate (loss)	(12,658)	(11,394)	(40,642)	(34,604)	(13,946)	(13,521)
Consolidated EBIT	<u>38,001</u>	<u>30,833</u>	<u>84,177</u>	<u>69,091</u>	<u>22,121</u>	<u>20,557</u>
Less: Interest expense	<u>(2,495)</u>	<u>(1,331)</u>	<u>(6,422)</u>	<u>(3,084)</u>	<u>(2,667)</u>	<u>(1,658)</u>
Earnings before income taxes	<u>\$ 35,506</u>	<u>29,502</u>	<u>77,755</u>	<u>66,007</u>	<u>\$ 19,454</u>	<u>18,899</u>

Non-GAAP Financial Measures

The financial measure "EBIT" is presented in the above table and elsewhere in this Report. EBIT on a consolidated basis is a non-GAAP financial measure. Management believes that EBIT is useful in assessing the operational profitability of the Company's business segments because it excludes interest and taxes, which are generally accounted for across the entire Company on a consolidated basis. EBIT is also one of the measures used by management in determining resource allocations within the Company as well as incentive compensation. A reconciliation of EBIT to net earnings is set forth in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations – EBIT.

The Company believes that the presentation of EBIT provides important supplemental information to investors to facilitate comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results. However, the Company's non-GAAP financial measures may not be comparable to other companies' non-GAAP financial performance measures. Furthermore, the use of non-GAAP financial measures is not intended to replace any measures of performance determined in accordance with GAAP.

8. DEBT

The Company's debt is summarized as follows:

(In thousands)	June 30,	September 30,	December 31,	September 30,
	2023	2022	2023	2023
Total borrowings	\$ 148,000	153,000	\$ 172,000	102,000
Current portion of long-term debt	(20,000)	(20,000)	(20,000)	(20,000)
Total long-term debt, less current portion	<u>\$ 128,000</u>	<u>133,000</u>	<u>\$ 152,000</u>	<u>82,000</u>

The Credit Facility includes a \$500 million revolving line of credit as well as provisions allowing for the increase of the credit facility commitment amount by an additional \$250 million, if necessary, with the consent of the lenders. The bank syndication supporting the facility is comprised of a diverse group of eight seven banks led by JP Morgan Chase Bank, N.A., as Administrative Agent, administrative agent, Bank of America, N.A., as syndication agent, and

Commerce Bank and TD Bank, N.A. as co-documentation agents. The Credit Facility matures **September 27, 2024** **August 30, 2028**, with balance due by this date.

At **June 30, 2023** **December 31, 2023**, the Company had approximately **\$345 million** **\$322 million** available to borrow under the Credit Facility, plus the \$250 million increase option subject to the lenders' consent, in addition to **\$56.1 million** **\$51.4 million** cash on hand. The Company classified \$20 million as the current portion of long-term debt as of **June 30, 2023** **December 31, 2023**, 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 letters of credit issued and outstanding under the Credit Facility totaled **\$7.4 million** **\$5.8 million** at **June 30, 2023** **December 31, 2023**.

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Interest on borrowings under the Credit Facility is calculated at a spread over either **an Adjusted Term SOFR Rate, Adjusted EURIBOR Rate, Adjusted CDOR Rate, Alternate Base Rate or Daily Simple RFR**, at the **Standard Overnight Financing Rate (SOFR) or the prime rate** depending on various factors. **Company's election**. The Credit Facility also requires a facility fee ranging from **10 12.5** to 25 basis points per annum on the unused portion. The interest rate spreads **on the facility** and the facility fee are subject to increase or decrease depending on the Company's leverage ratio. The weighted average interest rates were **6.05%** **6.8%** and **5.57%** **4.6%** for the **three and nine-month** **three-month** periods ending **June 30, 2023, respectively, December 31, 2023** and **2.20%** and **1.57%** for the **three and nine-month** periods ending **June 30, 2022, 2022, respectively**. As of **June 30, 2023** **December 31, 2023**, the Company was in compliance with all covenants.

9. INCOME TAX EXPENSE

The **third first** quarter **2023 2024** effective income tax rate was **21.3%** **22.0%** compared to **21.5%** **22.1%** in the **third first** quarter of **2022. The 2023. There were no significant changes in the** effective income tax rate **in between** the **first nine months** of 2023 was 22.1% compared to 22.3% for the first nine months of 2022. The income tax expense in the third quarter and first nine months of 2023 was favorably impacted by tax return to provision true-ups related to the federal research and development tax credit, decreasing the third quarter and year-to-date rate by 0.9% and 0.4%, respectively, **periods**.

The income tax expense in the third quarter and first nine months of 2022 was favorably impacted by tax return to provision true-ups on U.S. tax on the distribution of foreign earnings, and the re-rating of deferred taxes as a result of a Vermont law change, decreasing the third quarter and year-to-date effective tax rate by 1.6% and 0.7%, respectively.

10. SHAREHOLDERS' EQUITY

The change in shareholders' equity for the first three **and nine** months **of 2023 ended December 31, 2023** and 2022 is shown below (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,		Three Months Ended December 31,	
	2023	2022	2023	2022	2023	2022
Common stock						
Beginning balance	308	307	307	307	\$ 308	307
Stock plans	—	—	1	—	—	—
Ending balance	308	307	308	307	308	307
Additional paid-in-capital						
Beginning balance	304,184	298,353	301,553	297,644	304,850	301,553
Stock plans	1,371	1,510	4,002	2,219	433	(856)
Ending balance	305,555	299,863	305,555	299,863	305,283	300,697
Retained earnings						
Beginning balance	933,499	854,946	905,022	830,989	989,315	905,022
Net earnings	27,943	23,173	60,548	51,280		
Net earnings common stockholders					15,169	14,727
Dividends paid	(2,061)	(2,069)	(6,189)	(6,219)	(2,064)	(2,067)
Ending balance	959,381	876,050	959,381	876,050	1,002,420	917,682

Accumulated other comprehensive income (loss)						
Beginning balance	(18,018)	(7,472)	(31,764)	(2,161)	(23,969)	(31,764)
Foreign currency translation	(821)	(11,905)	12,925	(17,216)	9,414	11,513
Ending balance	(18,839)	(19,377)	(18,839)	(19,377)	(14,555)	(20,251)
Treasury stock						
Beginning balance	(139,178)	(124,961)	(126,961)	(107,083)	(139,362)	(126,961)
Share repurchases	(184)	(2,000)	(12,401)	(19,878)	—	(5,076)
Ending balance	(139,362)	(126,961)	(139,362)	(126,961)	(139,362)	(132,037)
Total equity	1,107,043	1,029,882	1,107,043	1,029,882	\$ 1,154,094	1,066,398

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11. FAIR VALUE MEASUREMENTS

The accounting guidance 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.

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- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial Assets and Liabilities

The Company has estimated the fair value of its financial instruments as of **June 30, 2023**, **December 31, 2023** and **September 30, 2022** using available market information or other appropriate valuation methodologies. The carrying amounts of cash and cash equivalents, receivables, inventories, payables, and other current assets and liabilities approximate fair value because of the short maturity of those instruments.

Fair Value of Financial Instruments

The Company's forward contracts and interest rate swaps are classified within Level 2 of the valuation hierarchy in accordance with FASB Accounting Standards Codification (ASC) 825, and are immaterial.

Nonfinancial Assets and Liabilities

The Company's nonfinancial assets such as property, plant and equipment, and other intangible assets are not measured at fair value on a recurring basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence that an impairment may exist. No impairments were recorded during the **three and nine-month periods** ended **June 30, 2023**.

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12. REVENUES

Disaggregation of Revenues

Revenues by customer type, geographic location, and revenue recognition method for the three and nine-month periods three-month period ended June 30, 2023 December 31, 2023 are presented in the tables table below as the Company deems it best depicts how the nature, amount, timing and uncertainty of net sales and cash flows are affected by economic factors. The tables table below also include includes a reconciliation of the disaggregated revenue within each reportable segment.

Three months ended June 30, 2023				
Aerospace				
(In thousands)	& Defense	USG	Test	Total
Customer type:				
Commercial	\$ 51,303	\$ 88,442	\$ 48,407	\$ 188,152
Government	52,166	1,524	6,907	60,597
Total revenues	<u>\$ 103,469</u>	<u>\$ 89,966</u>	<u>\$ 55,314</u>	<u>\$ 248,749</u>
Geographic location:				
United States	\$ 86,031	\$ 55,011	\$ 32,246	\$ 173,288
International	17,438	34,955	23,068	75,461
Total revenues	<u>\$ 103,469</u>	<u>\$ 89,966</u>	<u>\$ 55,314</u>	<u>\$ 248,749</u>
Revenue recognition method:				
Point in time	\$ 48,496	\$ 74,128	\$ 11,496	\$ 134,120
Over time	54,973	15,838	43,818	114,629
Total revenues	<u>\$ 103,469</u>	<u>\$ 89,966</u>	<u>\$ 55,314</u>	<u>\$ 248,749</u>

Nine months ended June 30, 2023								
Aerospace								
(In thousands)	& Defense	USG	Test	Total	Aerospace			
					& Defense	USG	Test	Total
Customer type:								
Commercial	\$ 136,271	\$ 236,715	\$ 137,587	\$ 510,573	\$ 37,209	\$81,469	\$35,087	\$153,765
Government	149,163	3,457	20,193	172,813	57,524	1,515	5,510	64,549
Total revenues	<u>\$ 285,434</u>	<u>\$ 240,172</u>	<u>\$ 157,780</u>	<u>\$ 683,386</u>	<u>\$ 94,733</u>	<u>\$82,984</u>	<u>\$40,597</u>	<u>\$218,314</u>
Geographic location:								
United States	\$ 237,481	\$ 154,410	\$ 87,253	\$ 479,144	\$ 79,901	\$55,961	\$22,252	\$158,114
International	47,953	85,762	70,527	204,242	14,832	27,023	18,345	60,200
Total revenues	<u>\$ 285,434</u>	<u>\$ 240,172</u>	<u>\$ 157,780</u>	<u>\$ 683,386</u>	<u>\$ 94,733</u>	<u>\$82,984</u>	<u>\$40,597</u>	<u>\$218,314</u>
Revenue recognition method:								
Point in time	\$ 129,355	\$ 194,240	\$ 32,565	\$ 356,160	\$ 39,465	\$66,703	\$ 7,980	\$114,148
Over time	156,079	45,932	125,215	327,226	55,268	16,281	32,617	104,166
Total revenues	<u>\$ 285,434</u>	<u>\$ 240,172</u>	<u>\$ 157,780</u>	<u>\$ 683,386</u>	<u>\$ 94,733</u>	<u>\$82,984</u>	<u>\$40,597</u>	<u>\$218,314</u>

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Revenues by customer type, geographic location, and revenue recognition method for the three and nine-month periods three-month period ended June 30, 2022 December 31, 2022 are presented in the tables below. table below:

Three months ended June 30, 2022				
Aerospace				
(In thousands)	& Defense	USG	Test	Total

Customer type:				
Commercial	\$ 38,918	\$ 65,610	\$ 54,449	\$ 158,977
Government	53,688	1,591	4,810	60,089
Total revenues	<u>\$ 92,606</u>	<u>\$ 67,201</u>	<u>\$ 59,259</u>	<u>\$ 219,066</u>
Geographic location:				
United States	\$ 79,536	\$ 41,822	\$ 34,662	\$ 156,020
International	13,070	25,379	24,597	63,046
Total revenues	<u>\$ 92,606</u>	<u>\$ 67,201</u>	<u>\$ 59,259</u>	<u>\$ 219,066</u>
Revenue recognition method:				
Point in time	\$ 35,238	\$ 53,656	\$ 15,827	\$ 104,721
Over time	57,368	13,545	43,432	114,345
Total revenues	<u>\$ 92,606</u>	<u>\$ 67,201</u>	<u>\$ 59,259</u>	<u>\$ 219,066</u>

Nine months ended June 30, 2022					Aerospace			
(In thousands)	& Defense	USG	Test	Total	& Defense	USG	Test	Total
Customer type:								
Commercial	\$ 100,407	\$ 191,832	\$ 147,390	\$ 439,629	\$ 36,740	\$ 70,162	\$ 45,992	\$ 152,894
Government	147,264	3,045	11,066	161,375	46,243	883	5,481	52,607
Total revenues	<u>\$ 247,671</u>	<u>\$ 194,877</u>	<u>\$ 158,456</u>	<u>\$ 601,004</u>	<u>\$ 82,983</u>	<u>\$ 71,045</u>	<u>\$ 51,473</u>	<u>\$ 205,501</u>
Geographic location:								
United States	\$ 212,849	\$ 122,021	\$ 88,708	\$ 423,578	\$ 68,934	\$ 46,379	\$ 27,503	\$ 142,816
International	34,822	72,856	69,748	177,426	14,049	24,666	23,970	62,685
Total revenues	<u>\$ 247,671</u>	<u>\$ 194,877</u>	<u>\$ 158,456</u>	<u>\$ 601,004</u>	<u>\$ 82,983</u>	<u>\$ 71,045</u>	<u>\$ 51,473</u>	<u>\$ 205,501</u>
Revenue recognition method:								
Point in time	\$ 99,464	\$ 155,693	\$ 43,488	\$ 298,645	\$ 33,604	\$ 56,031	\$ 9,101	\$ 98,736
Over time	148,207	39,184	114,968	302,359	49,379	15,014	42,372	106,765
Total revenues	<u>\$ 247,671</u>	<u>\$ 194,877</u>	<u>\$ 158,456</u>	<u>\$ 601,004</u>	<u>\$ 82,983</u>	<u>\$ 71,045</u>	<u>\$ 51,473</u>	<u>\$ 205,501</u>

Revenue Recognition

Payment terms with our customers vary by the type and location of the customer and the products or services offered. Arrangements with customers that include payment terms extending beyond one year are not significant. The transaction price for these contracts reflects our estimate of returns and discounts, which are based on historical, current and forecasted information to determine the expected amount to which we will be entitled in exchange for transferring the promised goods or services to the customer. The realization of variable consideration occurs within a short period of time from product delivery; therefore, the time value of money effect is not significant. We primarily provide standard warranty programs for products in our commercial businesses for periods that typically range from one to two years. These assurance-type programs typically cannot be purchased separately and do not meet the criteria to be considered a performance obligation. Under the typical payment terms of our long term fixed price contracts, the customer pays us either performance-based or progress payments. Performance-based payments represent interim payments based on quantifiable measures of performance or on the achievement of specified events or milestones. Progress payments are interim payments of costs incurred as the work progresses.

For our overtime revenue recognized using the output method of costs incurred, contract cost is estimated utilizing current contract specifications and expected engineering requirements. Contract costs typically are incurred over a period of several months to one or more years, and the estimation of these costs requires judgment. Our cost estimation process is based on the professional knowledge and experience of engineers and program managers along with finance professionals. We review and update our projections of costs quarterly or more frequently when circumstances significantly change. In addition, in the USG

segment, we recognize revenue as a series of distinct services based on each day of providing services (straight-line over the contract term) for certain of our USG segment contracts. Under the typical payment terms of our service contracts, the customer pays us in advance of when services are performed. In addition, in the Test segment, we use milestones to measure progress for our Test segment contracts because it best depicts the transfer of control to the customer that occurs as we incur costs on our contracts.

Remaining Performance Obligations

Remaining performance obligations, which is the equivalent of backlog, represent the expected transaction price allocated to contracts that the Company expects to recognize as revenue in future periods when the Company performs under the contracts. These remaining obligations include amounts that have been formally appropriated under contracts with the U.S. Government, and exclude unexercised contract options and potential orders under ordering-type contracts such as Indefinite Delivery, Indefinite Quantity contracts. At ~~June 30, 2023~~ December 31, 2023, the Company had ~~\$705.4 million~~ \$847.8 million in remaining performance obligations of which the Company expects to recognize revenues of approximately ~~79%~~ 66% in the next twelve months.

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Contract assets, ~~contract liabilities~~ and ~~liabilities~~ accounts receivable

Assets and liabilities related to contracts with customers are reported on a contract-by-contract basis at the end of each reporting period. ~~Because of the timing difference of revenue recognition and customer billing, these contracts will often result in revenue recognized in excess of billings and billings in excess of costs incurred.~~ At ~~June 30, 2023~~ December 31, 2023, contract assets, ~~contract liabilities~~ and ~~liabilities~~ accounts receivable totaled ~~\$128.3 million~~ \$138.4 million, \$131.9 million and ~~\$133.6 million~~ \$194.4 million, respectively. During the first ~~nine months~~ quarter of ~~2023~~, 2024, the Company recognized approximately ~~\$81 million~~ \$24.4 million in revenues that were included in the contract liabilities balance at ~~September 30, 2022~~ September 30, 2023. At ~~September 30, 2022~~ September 30, 2023, contract assets, ~~contract liabilities~~ and ~~liabilities~~ accounts receivable totaled ~~\$125.2 million~~ \$138.6 million, \$123.1 million and ~~\$137.6 million~~ \$198.6 million, respectively.

13. LEASES

The Company determines at lease inception whether an arrangement that provides control over the use of an asset is a lease. The Company recognizes at lease commencement a right-of-use (ROU) asset and lease liability based on the present value of the future lease payments over the lease term. The Company has elected not to recognize a ROU asset and lease liability for leases with terms of 12 months or less. Certain of the Company's leases include options to extend the term of the lease for up to 20 years. When it is reasonably certain that the Company will exercise the option, Management includes the impact of the option in the lease term for purposes of determining total future lease payments. As most of the Company's lease agreements do not explicitly state the discount rate implicit in the lease, Management uses the Company's incremental borrowing rate on the commencement date to calculate the present value of future payments based on the tenor of each arrangement.

The Company's leases for real estate commonly include escalating payments. ~~These variable lease payments are included in the calculation of the ROU asset and lease liability.~~ In addition to the present value of the future lease payments, the calculation of the ROU asset also includes any deferred rent, lease pre-payments and initial direct costs of obtaining the lease.

In addition to the base rent, real estate leases typically contain provisions for common-area maintenance and other similar services, which are considered non-lease components for accounting purposes. Non-lease components are excluded from ~~our~~ ROU assets and lease liabilities and expensed as incurred.

The Company's leases are for office space, manufacturing facilities, and machinery and equipment.

The components of lease costs are shown below:

	Three Months Ended	Three Months Ended
	June 30,	June 30,
(Dollars in thousands)	2023	2022
Finance lease cost		
Amortization of right-of-use assets	\$ 393	\$ 393
Interest on lease liabilities	230	242
Operating lease cost	1,858	1,577
Total lease costs	\$ 2,481	\$ 2,212

	Nine Months Ended June 30, 2023	Nine Months Ended June 30, 2022	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022
(Dollars in thousands)				
Finance lease cost				
Amortization of right-of-use assets	\$ 1,179	\$ 1,219	\$ 393	393
Interest on lease liabilities	698	753	223	236
Operating lease cost	5,356	4,731	1,864	1,645
Total lease costs	<u>\$ 7,233</u>	<u>\$ 6,703</u>	<u>\$ 2,480</u>	<u>2,274</u>

Additional information related to leases are shown below:

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022
(Dollars in thousands)		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 1,792	\$ 1,485
Operating cash flows from finance leases	230	242
Financing cash flows from finance leases	334	307
Right-of-use assets obtained in exchange for operating lease liabilities	402	566

	Nine Months Ended June 30, 2023	Nine Months Ended June 30, 2022	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022
(Dollars in thousands)				
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	\$ 5,172	\$ 4,521	\$ 1,819	1,601
Operating cash flows from finance leases	698	753	223	236
Financing cash flows from finance leases	991	971	355	327
Right-of-use assets obtained in exchange for operating lease liabilities	14,984	1,813		
	<u>June 30, 2023</u>	<u>June 30, 2022</u>		
Right-of-use assets obtained in exchange for lease liabilities				
Operating leases			\$ —	13,964
Weighted-average remaining lease term				
Operating leases	11.4 years	9.7 years	11.1 years	11.6 years
Finance leases	11.3 years	12.0 years	11.1 years	11.7 years
Weighted-average discount rate				
Operating leases	4.42 %	3.12 %	4.5 %	4.4 %
Finance leases	4.62 %	4.59 %	4.7 %	4.6 %

The following is a reconciliation of future undiscounted cash flows to the operating and finance lease liabilities, and the related ROU assets, presented on our the Consolidated Balance Sheet on June 30, 2023 December 31, 2023:

(Dollars in thousands)	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Years Ending September 30:				
2023 (excluding the nine months ended June 30, 2023)	\$ 1,796	566		
2024	6,458	2,315		
2024 (excluding the three months ended December 31, 2023)			\$ 5,044	1,634
2025	5,168	2,370	5,684	2,233
2026	4,300	2,434	4,472	2,297
2027 and thereafter	36,913	18,997		
2027			4,265	2,356
2028 and thereafter			32,991	16,470
Total minimum lease payments	54,635	26,682	52,456	24,990
Less: amounts representing interest	12,570	6,491	11,869	6,010
Present value of net minimum lease payments	\$ 42,065	20,191	\$40,587	18,980
Less: current portion of lease obligations	5,250	1,415	4,878	1,348
Non-current portion of lease obligations	36,815	18,776	\$35,709	17,632
ROU assets	\$ 40,314	16,164	\$38,685	14,799

Operating lease liabilities are included in on the Consolidated Balance Sheet in accrued other expenses (current portion) and as a caption on the Consolidated Balance Sheet (long-term portion). Finance lease liabilities are included on the Consolidated Balance Sheet in accrued other expenses (current portion) and other liabilities (long-term portion). Operating lease ROU assets are included as a caption on the Consolidated Balance Sheet and finance lease ROU assets are included in Property, plant and equipment on the Consolidated Balance sheets. sheet.

14. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which expands annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures about significant expenses. The new segment disclosures are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Management will review the extent of new disclosures necessary in the coming quarters, prior to implementation in our fiscal year 2025. Other than additional disclosure, we do not expect a change to our consolidated statements of operations, financial position, or cash flows.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," which provides qualitative and quantitative updates to the rate reconciliation and income taxes paid disclosures. This ASU will be effective for fiscal years beginning after December 15, 2024. Management will review the extent of new disclosures necessary in the coming quarters, prior to implementation in our fiscal year 2026. Other than additional disclosure, we do not expect a change to our consolidated statements of operations, financial position, or cash flows.

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

RESULTS OF OPERATIONS

References to the third first quarters of 2023 2024 and 2022 2023 represent the three-month periods ended June 30, 2023 December 31, 2023 and 2022, respectively.

OVERVIEW

In the third quarter of 2023, sales, Sales, net earnings and diluted earnings per share were \$248.7 million \$218.3 million, \$27.9 million \$15.2 million and \$1.08 per share, respectively, compared to \$219.1 million, \$23.2 million and \$0.89 per share, respectively, in the third quarter of 2022. In the first nine months of 2023, sales, net earnings and diluted earnings per share were \$683.4 million, \$60.5 million and \$2.34 per share, respectively, compared to \$601.0 million,

\$51.3 million and \$1.97 \$0.59 per share, respectively, in the first nine months quarter of 2022. 2024 compared to \$205.5 million, \$14.7 million and \$0.57 per share, respectively, in the first quarter of 2023.

NET SALES

In the third quarter of 2023, net Net sales of \$248.7 million were \$29.6 million increased \$12.8 million, or 13.5% 6.2%, higher than the \$219.1 million in the third quarter of 2022. In the first nine months of 2023, net sales of \$683.4 million were \$82.4 million, or 13.7%, higher than the \$601.0 million to \$218.3 million in the first nine months quarter of 2022. 2024 from \$205.5 million in the first quarter of 2023. The increase in net sales in the third first quarter of 2023 2024 as compared to the third first quarter of 2022 2023 was due to a \$22.8 million \$12.0 million increase in the USG segment, and a \$10.9 million an \$11.7 million increase in the Aerospace & Defense segment, partially offset by a \$4.0 million decrease in the Test segment. The increase in net sales in the first nine months of 2023 as compared to the first nine months of 2022 was due to a \$45.3 million increase in the USG segment, and a \$37.8 million increase in the Aerospace & Defense segment, partially offset by a \$0.7 million \$10.9 million decrease in the Test segment.

-Aerospace & Defense (A&D)

In Net sales of \$94.7 million in the third first quarter of 2023, net sales of \$103.5 million 2024 were \$10.9 million \$11.7 million, or 11.8% 14.1%, higher than the \$92.6 million in the third quarter of 2022. In the first nine months of 2023, net sales of \$285.4 million were \$37.8 million, or 15.2%, higher than the \$247.7 million \$83.0 million in the first nine months of 2022. The sales increase in the third quarter of 2023 compared to the third quarter of 2022 was mainly due to a \$6.5 million increase in net sales at Mayday, a \$5.0 million increase in net sales at PTI, a \$1.8 million increase in net sales at Globe/Westland combined, and a \$3.9 million increase in net sales at Crissair, partially offset by a \$6.3 million decrease in net sales at VACCO driven by timing of navy and space projects. 2023. The sales increase in the first nine months quarter of 2023 2024 compared to the first nine months quarter of 2022 2023 was mainly primarily due to an \$18.3 million approximately \$7.0 million increase in aerospace shipments at Mayday, Crissair and PTI, and a \$4.7 million increase in net sales at Mayday, Globe driven mainly by the CMT acquisition.

-USG

Net sales of \$83.0 million in the first quarter of 2024 were \$12.0 million, or 16.9% higher than the \$71.0 million in the first quarter of 2023. The increase in the first quarter of 2024 compared to the first quarter of 2023 was mainly due to a \$9.6 million \$7.6 million increase in net sales at PTI, an \$8.4 million Doble driven by higher sales of offline testing products and services and a \$4.4 million increase in net sales at Crissair, and a \$2.6 million increase in net sales at Globe/Westland combined, partially offset NRG driven by a \$1.4 million decrease in net sales at VACCO. The increase in net sales at Mayday, PTI and Crissair continued strength in the third quarter and first nine months of 2023 as compared to the corresponding periods of 2022 was primarily due to an increase in commercial and defense aerospace sales driven by the rebound from the COVID-19 pandemic, renewables end-market.

-USG -Test

In the third quarter of 2023, net Net sales of \$90.0 million were \$22.8 million, or 33.9%, higher than the \$67.2 million in the third quarter of 2022. In the first nine months of 2023, net sales of \$240.2 million were \$45.3 million, or 23.2%, higher than the \$194.9 million \$40.6 million in the first nine months of 2022. The increase in the third quarter and first nine months of 2023 compared to the corresponding periods of 2022 was mainly due to higher shipments of protection testing, condition monitoring and offline testing products and service revenue at Doble and an increase in product sales at NRG.

-Test

In the third quarter of 2023, net sales of \$55.3 million 2024 were \$4.0 million \$10.9 million, or 6.7% 21.2%, lower than the \$59.3 million in the third quarter of 2022. In the first nine months of 2023, net sales of \$157.8 million were \$0.7 million, or 0.4%, lower than the \$158.5 million \$51.5 million in the first nine months of 2022. The decrease in the third quarter of 2023 as compared to the third quarter of 2022 was primarily due to a \$4.4 million decrease in sales from the Company's Asian operations driven by COVID disruptions in China and a \$0.7 million decrease from the Company's U.S. operations, partially offset by a \$1.1 million increase in sales from the segment's European operations due to strength from test and measurement chamber projects. 2023. The decrease in the first nine months quarter of 2023 2024 compared to the first nine months quarter of 2022 2023 was primarily due to a \$11.4 million decrease in sales from the Company's Asian operations due to COVID disruptions in China, partially offset by a \$10.7 million increase in \$7.5 million of lower sales from the segment's U.S operations and \$3.4 million of lower sales from the segment's Asian and European and U.S. operations, all due to the timing of test and measurement chamber projects.

ORDERS AND BACKLOG

Backlog was \$705.4 million \$847.8 million at June 30, 2023 December 31, 2023 compared with \$695.0 million \$772.4 million at September 30, 2022 September 30, 2023. The Company received new orders totaling \$213.3 million in the third quarter of 2023 compared to \$254.9 million in the third quarter of 2022. Of the new orders received in the third quarter of 2023, \$81.9 million related to Aerospace & Defense products, \$85.5 million related to USG products, and \$45.9 million related to Test products. Of the new orders received in the third quarter of 2022, \$110.2 million related to Aerospace & Defense products, \$74.4 million related to USG products, and \$70.3 million related to Test products.

The Company received new orders totaling \$693.8 million \$293.7 million in the first nine months quarter of 2023 2024 compared to \$715.8 million \$228.9 million in the first nine months quarter of 2022, 2023. Of the new orders received in the first nine months quarter of 2023, \$290.9 million 2024, \$171.5 million related to Aerospace & Defense products, \$250.3 million \$77.0 million related to USG products, and \$152.6 million \$45.2 million related to Test products. Of the new orders received in the first nine months quarter of 2022, \$295.0 million 2023, \$97.3 million related to Aerospace & Defense products, \$227.1 million \$80.2 million related to USG products, and \$193.7 million \$51.4 million related to Test products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses for the third quarter of 2023 were \$55.4 million (22.3% of net sales), compared with \$47.5 million (21.7% of net sales) for the third quarter of 2022. For the first nine months of 2023, SG&A expenses were \$160.6 million (23.5% of net sales) compared to \$142.1 million (23.6% \$54.0 million (24.7% of net sales) for the first nine months quarter of 2022, 2024, compared with \$51.3 million (25.0% of net sales) for the first quarter of 2023. The increase in SG&A in the first nine months quarter of 2023 2024 compared to the corresponding periods first quarter of 2022 2023 was mainly due to higher expenses at Corporate an increase within the USG and A&D segments due to executive management transition costs higher sales, inflationary impacts and professional fees and higher expenses at Doble as a result of increased sales and marketing and event costs. acquisition impacts.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets was \$7.1 million \$7.9 million and \$21.0 million \$6.9 million for the third first quarter of 2024 and first nine months of 2023, respectively, compared to \$6.4 million and \$19.4 million for the corresponding periods of 2022, respectively. Amortization expenses consist of amortization of acquired intangible assets from acquisitions and other identifiable intangible assets (primarily

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software). The increase in amortization expense in the third first quarter and first nine months of 2023 2024 compared to the corresponding periods first quarter of 2022 2023 was mainly due to an increase in amortization of capitalized software and amortization of intangible assets related to the Company's recent acquisition of CMT, MPE and CMT acquisitions.

OTHER EXPENSES, (INCOME), NET

Other expenses, net, were \$1.0 million in the third quarter of 2023 compared to (\$0.1) million of income in the third quarter of 2022. Other expenses, net, were \$1.7 million \$0.2 million in the first nine months quarter of 2023 2024 compared to (\$0.7) million of income \$0.4 million in the first nine months of 2022. The principal items included in other expenses, net, in the third quarter and first nine months of 2023 included a bad debt write-off of \$0.5 million due to a customer bankruptcy within the A&D segment and approximately \$0.5 million of restructuring costs (mainly severance) in the first nine months of 2023. There were no individually significant items in other expenses, (income), net, in the third first quarter or of 2024. The principal component of other expenses, net, in the first nine months quarter of 2022, 2023 included approximately \$0.2 million of restructuring charges within the A&D segment.

EBIT

The Company evaluates the performance of its operating segments based on EBIT, and provides EBIT on a consolidated basis, which is a non-GAAP financial measure. Please refer to the discussion of non-GAAP financial measures in Note 7 to the Consolidated Financial Statements, above. EBIT was \$38.0 million (15.3% of net sales) for the third quarter of 2023 compared to \$30.8 million (14.1% of net sales) for the third quarter of 2022. For the first nine months of 2023, EBIT was \$84.2 million (12.3% of net sales) compared to \$69.1 million (11.5% \$22.1 million (10.1% of net sales) for the first nine months quarter of 2022, 2024 compared to \$20.6 million (10.0% of net sales) for the first quarter of 2023.

The following table presents a reconciliation of EBIT to net earnings, a GAAP financial measure:

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(In thousands)	Three Months Ended		Nine Months Ended		Three Months Ended	
	June 30,		June 30,		December 31,	
	2023	2022	2023	2022	2023	2022
Net earnings	\$ 27,943	23,173	60,548	51,280	\$15,169	14,727
Plus: Interest expense, net	2,495	1,331	6,422	3,084	2,667	1,658
Plus: Income tax expense	7,563	6,329	17,207	14,727	4,285	4,172
Consolidated EBIT	\$ 38,001	30,833	84,177	69,091	\$22,121	20,557

–Aerospace & Defense

EBIT in the third quarter of 2023 was \$21.7 million (20.9% of net sales) compared to \$20.7 million (22.4% of net sales) in the third quarter of 2022. EBIT in the first nine months of 2023 was \$53.0 million (18.6% of net sales) compared to \$45.0 million (18.2%) \$16.7 million (17.6% of net sales) in the first nine months quarter of 2022. 2024 compared to \$12.5 million (15.1% of net sales) in the first quarter of 2023. The increase in EBIT in the third first quarter and first nine months of 2023 2024 compared to the corresponding periods first quarter of 2022 2023 was mainly due to higher sales volumes at Mayday, PTI, Crissair and & Globe partially offset by a decrease in EBIT at VACCO due to lower sales volumes as mentioned above and margin erosion on certain space development contracts. EBIT in the first nine months of 2023 was negatively impacted by a \$0.6 million inventory step-up charge related to the CMT acquisition. EBIT in the first nine months of 2022 was negatively impacted by a \$0.3 million inventory step-up charge related to the NEco acquisition. above.

–USG

EBIT in the third quarter of 2023 was \$20.4 million (22.6% of net sales) compared to \$13.1 million (19.5% of net sales) in the third quarter of 2022. EBIT in the first nine months of 2023 was \$50.5 million (21.0% of net sales) compared to \$37.8 million (19.4%) \$17.6 million (21.2% of net sales) in the first nine months quarter of 2022. 2024 compared to \$16.1 million (22.7% of net sales) in the first quarter of 2023. The increase in EBIT in the third first quarter and first nine months of 2023 2024 compared to the corresponding periods first quarter of 2022 2023 was mainly due to the higher sales volumes at both Doble and NRG as mentioned above and price increases, partially offset by in the impacts first quarter of wage and material cost inflation and increased commissions, travel, and tradeshow expenses. 2024.

–Test

EBIT was \$1.8 million (4.4% of net sales) in the first quarter of 2024 compared to \$5.4 million (10.5% of net sales) in the first quarter of 2023. The decrease in EBIT in the first nine months quarter of 2022 2024 compared to the first quarter of 2023 was primarily driven by the lower sales volumes from the segment's U.S. and Asian operations. In addition, EBIT in the first quarter of 2024 was negatively impacted by approximately \$0.5 million \$0.3 million of inventory step-up charges related to the Altanova MPE acquisition.

–Test

EBIT in the third quarter of 2023 was \$8.6 million (15.6% of net sales) compared to \$8.4 million (14.1% of net sales) in the third quarter of 2022. EBIT in the first nine months of 2023 was \$21.3 million (13.5% of net sales) compared to \$20.8 million (13.1% of net sales) in the first nine months of 2022. The increase in EBIT in the third quarter of 2023 compared to the third quarter of 2022 was primarily due to favorable product mix, price increases and cost reduction efforts in the segment's U.S. operations, and higher sales volumes mainly from the segment's European operations. The increase in EBIT in the first nine months of 2023 compared to the first nine months of 2022 was primarily due to the higher sales volumes from the segment's European operations partially offset by a decrease in EBIT from the segment's Asian operations due to COVID disruptions in China.

–Corporate

Corporate costs included in EBIT were \$12.7 million \$13.9 million and \$40.6 million \$13.5 million in the third quarter and first nine months of 2023, respectively, compared to \$11.4 million and \$34.6 million in the corresponding periods of 2022. The increase in Corporate costs in the third quarter of 2024 and 2023, compared to the third quarter of 2022 was mainly due to an increase in medical insurance premiums, respectively. The increase in Corporate costs in the first nine months quarter of 2023 2024 compared to the corresponding period first quarter of 2022 2023 was mainly due to executive management transition costs, and an increase in medical share based compensation costs professional fees and amortization expense of acquired intangible assets costs related to the CMT MPE acquisition.

INTEREST EXPENSE, NET

Interest expense was \$2.5 million \$2.7 million and \$6.4 million \$1.7 million in the third first quarter of 2024 and first nine months of 2023, respectively, and \$1.3 million and \$3.1 million in the corresponding periods of 2022, respectively. The increase in interest expense in the third first quarter and first nine months of 2023 2024 as compared to the corresponding periods first quarter of 2022 2023 was mainly due to higher average interest rates. The weighted rates (6.8% in the first quarter of 2024 compared to 4.6% in the first quarter of 2023) and higher average interest rates were 6.05% and 5.57% for the three and nine-month periods ending June 30, 2023, respectively, and 2.20% and 1.57% for the three and nine-month periods ending June 30, 2022. outstanding borrowings.

INCOME TAX EXPENSE

The third quarter 2023 effective income tax rate was 21.3% 22.0% in the first quarter of 2024 compared to 21.5% 22.1% in the third first quarter of 2022. The 2023. There were no significant changes in the effective income tax rate in between the first nine months of 2023 was 22.1% compared to 22.3% for the first nine months of 2022. The income tax expense in the third quarter and first nine months of 2023 was favorably impacted by tax return to provision true-ups related to the federal research and development tax credit, decreasing the third quarter and year-to-date rate by 0.9% and 0.4%, respectively.

The income tax expense in the third quarter and first nine months of 2022 was favorably impacted by tax return to provision true-ups on U.S. tax on the distribution of foreign earnings, and the re-rating of deferred taxes as a result of a Vermont law change, decreasing the third quarter and year-to-date effective tax rate by 1.6% and 0.7%, respectively. periods.

CAPITAL RESOURCES AND LIQUIDITY

The Company's overall financial position and liquidity remains remain strong. Working capital (current assets less current liabilities) increased to \$284.9 million \$298.5 million at June 30, 2023 December 31, 2023 from \$254.5 million \$266.4 million at September 30, 2022 September 30, 2023. Inventories increased by \$30.0 million \$18.5 million during this period mainly due to a \$15.4 million \$9.1 million increase within the Aerospace & Defense segment, a \$7.5 million increase within the USG segment and a \$14.0 million \$1.9 million increase within the Aerospace & Defense Test segment resulting primarily from the timing of receipt of raw materials to meet anticipated demand and an increase in work in process and finished goods inventories due to timing of manufacturing existing orders. Accounts receivable increased \$27.5 million Accrued salaries decreased by \$9.9 million during this period mainly due to a \$13.0 million increase within the Test segment, a \$10.2 million increase within the USG segment and a \$4.3 million increase within the A&D segment, due to timing of projects within the Test segment salaries and higher sales volumes in the A&D and USG segments. bonus payments.

Net cash provided by operating activities was \$29.2 million \$8.7 million and \$41.7 million net cash used by operating activities was \$(9.0) million in the first nine months quarters of 2023 2024 and 2022, 2023, respectively. The decrease increase in net cash provided by operating activities in the first nine months quarter of 2023 2024 as compared to the first nine months quarter of 2022 2023 was mainly driven by higher working capital requirements, including an increase in inventories contract liabilities and lower accounts receivable and higher tax and interest payments. balances due to timing of collections.

Capital expenditures were \$17.0 million \$7.8 million and \$25.9 million \$4.8 million in the first nine months quarters of 2023 2024 and 2022, 2023, respectively. The decrease in the first nine months of 2023 compared to the prior year period was mainly due to the purchase of the NRG building of approximately \$10 million increase in the first quarter of 2022. 2024 was mainly due to an increase in building improvements and machinery & equipment within the A&D segment. In addition, the Company incurred expenditures for capitalized software of \$9.3 million approximately \$2.9 million and \$9.4 million \$2.8 million in the first nine months quarters of 2023 2024 and 2022, 2023, respectively.

Acquisition

On February 1, 2023 November 9, 2023, the Company acquired CMT Materials, LLC and its affiliate Engineered Syntactic Systems, LLC (CMT) MPE Limited (MPE), based in the United Kingdom, for a purchase price of approximately \$18 million. CMT, based in Attleboro, Massachusetts, \$56.2 million, net of cash acquired. MPE is a leading supplier global manufacturer of syntactic materials high-performance EMC/EMP filters and capacitor products for buoyancy military, utility, telecommunication, and specialty other critical infrastructure applications. Since the date of acquisition, the operating results for the CMT MPE business have been included as part of Globe within ETS-Lindgren in the A&D Test segment.

Credit Facility

At June 30, 2023 December 31, 2023, the Company had approximately \$345 million \$322 million available to borrow under its bank credit facility, a \$250 million increase option, and \$56.1 million \$51.4 million cash on hand. At June 30, 2023 December 31, 2023, the Company had \$148 million \$172 million of outstanding borrowings under the credit facility in addition to outstanding letters of credit of \$7.4 million \$5.8 million. Cash flow from operations and borrowings under the Company's credit facility are expected to meet the Company's capital requirements and operational needs for the foreseeable future. The Company's ability to access the additional \$250 million increase option of the credit facility is subject to acceptance by participating or other outside banks.

Share Repurchases

During the first nine months of 2023, the Company repurchased approximately 140,000 shares for approximately \$12.4 million. For further information on the share repurchases during the third quarter of 2023, see Part II, Item 2 of this Report.

Dividends

A dividend of \$0.08 per share, totaling \$2.1 million, was paid on **October 18, 2022** **October 17, 2023** to stockholders of record as of **October 4, 2022**. A dividend of \$0.08 per share, totaling \$2.1 million, was paid on January 20, 2023 to stockholders of record as of January 5, 2023. A dividend of \$0.08 per share, totaling \$2.1 million, was paid on April 18, 2023 to stockholders of record as of April 3, 2023 **October 3, 2023**. Subsequent to **June 30, 2023** **December 31, 2023**, a quarterly dividend of \$0.08 per share, totaling \$2.1 million, was paid on **July 19, 2023** **January 19, 2024** to stockholders of record as of **July 5, 2023** **January 4, 2024**.

CRITICAL ACCOUNTING ESTIMATES POLICIES

Management has evaluated the accounting policies used in the preparation of the Company's financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by Management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving Management judgments and estimates may be found in the Critical Accounting Policies section of Management's Discussion and Analysis and in Note 1 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended **September 30, 2022** **September 30, 2023**.

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OTHER MATTERS

Contingencies

As a normal incident of the business in which the Company is engaged, various claims, charges and litigation are asserted or commenced against the Company. Additionally, the Company is currently involved in various stages of investigation and remediation relating to environmental matters. In the opinion of Management, the aggregate costs involved in the resolution of these matters, and final judgments, if any, which might be rendered against the Company, are adequately reserved, are covered by insurance, or would not have a material adverse effect on the Company's results from operations, capital expenditures, or competitive position.

FORWARD LOOKING STATEMENTS

Statements contained in this Form 10-Q regarding future events and the Company's future results that reflect or are based on current expectations, estimates, forecasts, projections or assumptions about the Company's performance and the industries in which the Company operates are considered "forward-looking statements" within the meaning of the safe harbor provisions of the Federal securities laws. These **may** include, but are not necessarily limited to, statements about: **any potential effects** **the strength of certain end markets served by the Company, and the timing of the** **COVID-19 pandemic;** **recovery of certain end markets which the Company serves;** the adequacy of the Company's credit facility and the Company's ability to increase it; the outcome of current litigation, claims and charges; **the amount and timing of payment** **the repayment** of the current portion of the Company's long-term debt; **the amount and timing of** future revenues from remaining performance obligations; fair values of reporting units; the deductibility of goodwill; **the amount and timing of the Company's obligations to pay deferred taxes;** estimates and assumptions that affect the **present values and** reported amounts of assets and liabilities; the recognition of compensation cost related to share-based compensation arrangements; the Company's ability to hedge against or otherwise manage market risks through the use of derivative financial instruments; the extent to which hedging gains or losses will be offset by losses or gains on related underlying exposures; and any other statements contained herein which are not strictly historical. 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 and speak only as of the date of this Form 10-Q, and the Company undertakes no duty to update them except as may be required by applicable laws or regulations. 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 in Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the fiscal year ended **September 30, 2022** **September 30, 2023**, and the following: the **continuing impact** **impacts of the COVID-19 pandemic including climate change and related regulation of greenhouse gases;** the impacts of **known** **labor disputes, civil disorder, wars, elections, political changes, tariffs and trade disputes, terrorist activities, cyberattacks or** **unknown** **COVID-19 variants, labor shortages, facility closures, shelter in place policies or quarantines, material shortages, transportation delays, termination or delays of Company contracts and the inability of our suppliers or customers to perform, the impacts of** natural disasters on the Company's operations and those of the Company's

customers and suppliers; disruptions in manufacturing or delivery arrangements due to shortages or unavailability of materials or components; or supply chain disruptions; inability to access work sites; the timing and content of future contract awards or customer orders; the timely appropriation, allocation and availability of Government funds; the termination for convenience of Government and other customer contracts or orders; weakening of economic conditions in served markets; the success of the Company's competitors; changes in customer demands or customer

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insolvencies; competition; intellectual property rights; technical difficulties; difficulties or data breaches; the availability of selected acquisitions; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs and availability of certain raw materials; inflationary pressures on the Company's costs of labor, materials, components and supplies; labor disputes; material changes in U.S. tax laws and regulations; other the cost of credit; changes in laws and regulations including but not limited to changes in accounting standards and foreign taxation; changes in interest rates; costs relating to environmental matters arising from current or former facilities; uncertainty regarding the ultimate resolution of current disputes, claims, litigation or arbitration; and the integration and performance of recently acquired businesses.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. The Company is exposed to market risk related to changes in interest rates and selectively uses derivative financial instruments, including forward contracts and swaps, to manage these risks. The Company's Canadian subsidiary Morgan Schaffer enters into foreign exchange contracts to manage foreign currency risk as a portion of their revenue is denominated in U.S. dollars. All derivative instruments are reported on the balance sheet at fair value. For derivative instruments designated as cash flow hedges, the gain or loss on the respective derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. There has been no material change to the Company's market risks since September 30, 2022 September 30, 2023.

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES*

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1-30, 2023	—	\$ N/A	—	\$ 167.8 million

May 1-31, 2023	1,742	\$	89.98	1,742	\$	167.6 million
June 1-30, 2023	300	\$	89.83	300	\$	167.6 million
Total	2,042	\$	89.95	2,042	\$	167.6 million

* On August 5, 2021, the Company's Board of Directors approved a new common stock program, which was announced on August 9, 2021, authorizing us to repurchase shares of our stock from time to time at our discretion, in the open market or otherwise, up to a maximum total repurchase amount equal to \$200 million (or such lesser amount as may be permitted under the Company's bank credit agreements). This program is scheduled to expire September 30, 2024. The Company has not determined whether or when it may cease making repurchases under the program prior to its expiration.

The Company did not repurchase any shares during the first quarter of 2024.

ITEM 5. OTHER INFORMATION

During the third first quarter of fiscal 2023, 2024, no director or officer (as defined in Securities and Exchange Commission Rule 16a-1(f)) of the Company adopted or terminated:

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terminated:

- (i) Any contract, instruction or written plan for the purchase or sale of Company securities intended to satisfy the affirmative defense conditions of SEC Rule 10b5-1(c) (a "Rule 10b5-1 trading arrangement"); or
- (ii) Any "non-Rule 10b5-1 trading arrangement" as defined in Item 408(c) of SEC Regulation S-K.

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ITEM 6. EXHIBITS

Exhibit Number	Description	Document Location
3.1(a)	Restated Articles of Incorporation	Exhibit 3(a) to the Company's Form 10-K for the fiscal year ended September 30, 1999
3.1(b)	Amended Certificate of Designation, Preferences and Rights of Series A Participating Cumulative Preferred Stock of the Registrant	Exhibit 4(e) to the Company's Form 10-Q for the fiscal quarter ended March 31, 2000
3.1(c)	Articles of Merger effective July 10, 2000	Exhibit 3(c) to the Company's Form 10-Q for the fiscal quarter ended June 30, 2000
3.1(d)	Amendment of Articles of Incorporation effective February 5, 2018	Exhibit 3.1 to the Company's Form 8-K filed February 7, 2018
3.2	Bylaws	Exhibit 3.1 to the Company's Form 8-K filed November 22, 2022

4.2	<u>Amendment No. 2 dated as of March 13, 2023 to Amended and Restated Credit Agreement dated as of September 27, 2019 among ESCO Technologies Inc., the Foreign Subsidiary Borrowers party thereto, the Lenders party thereto, JPMorgan Chase Bank, N.A. as Administrative Agent, BMO Harris Bank N.A. as Syndication Agent, and Bank of America, N.A., SunTrust Bank, U.S. Bank National Association and Wells Fargo Bank, National Association as Co-Documentation Agents August 30, 2023</u>	Exhibit 10.1 to the Company's Form 10-Q 8-K filed May 10, 2023 September 6, 2023
10.1	<u>Form of Restricted Stock Fiscal 2024 Performance Share Unit (RSU) Awards to Executive Officers under 2018 Omnibus Incentive Plan (2023)</u>	Filed herewith
31.1	<u>Certification of Chief Executive Officer</u>	Filed herewith
31.2	<u>Certification of Chief Financial Officer</u>	Filed herewith
32	<u>Certification of Chief Executive Officer and Chief Financial Officer</u>	Filed herewith
101.INS	XBRL Instance Document*	Submitted herewith
101.SCH	XBRL Schema Document*	Submitted herewith
101.CAL	XBRL Calculation Linkbase Document*	Submitted herewith
101.DEF	XBRL Definition Linkbase Document*	Submitted herewith
101.LAB	XBRL Label Linkbase Document*	Submitted herewith
101.PRE	XBRL Presentation Linkbase Document*	Submitted herewith
104	Cover Page Interactive Data File (contained in Exhibit 101)	Submitted herewith

* Exhibit 101 to this report consists of documents formatted in XBRL (Extensible Business Reporting Language). The financial information contained in the XBRL – related documents is “unaudited” or “unreviewed”.

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SIGNATURE

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

ESCO TECHNOLOGIES INC.

/s/ Christopher L. Tucker

Christopher L. Tucker

Senior Vice President and Chief Financial Officer

(As duly authorized officer and principal accounting and financial officer of the registrant)

Dated: August 9, 2023 February 9, 2024

[Exhibit 10.1 to August, 2023 Form 10-Q]
RESTRICTED PERFORMANCE SHARE UNIT
AWARD AGREEMENT

To: _____ ("you")

From: Human Resources and Compensation Committee of the Board of Directors (the "Committee")

Subject: ESCO Technologies Inc. (the "Company") 2018 Omnibus Incentive Plan ("Plan") –
 Fiscal 20__ **Restricted Performance** Share Unit Award ("Award")

1. **Award.** Effective _____, 20__ (the "Award Date"), set forth on Exhibit A hereto, the Committee has approved the award to you of _____ **Restricted** the number of Performance Share Units (the "RSUs" ("PSUs") pursuant to the Plan, representing set forth on Exhibit A hereto. Each PSU represents the right to receive _____ shares one share of common stock of the Company ("Shares") (before tax withholdings) upon satisfaction of all of the terms and conditions set forth in this Award Agreement, including Exhibit A, and in the Plan, a copy of which has been delivered to you and is you. Additional copies of the Plan are available from the Company's Human Resources Department upon request. The number of PSUs set forth in Exhibit A (the "Target Award") is the number of Shares that you will earn upon 100% achievement of the Company Performance Goals set forth on Exhibit A. The actual number of Shares that you may earn is dependent on the achievement of the Performance Goals as evaluated at the end of the Performance Period on Exhibit A and the Shares received may be more or less than the Target Award on Exhibit A.

2. **Payout Terms.**

(a) The Award and the any receipt of Shares shall become vested in equal one-third increments on each Vesting Date as defined in section 2(b), is subject to your continued employment at the Company or other entity wholly owned directly or indirectly by the Company ("Subsidiary") from the Award Date through the close of business on such Vesting Date. If the number of RSUs determined as of a Vesting Date is a fractional share, set forth on Exhibit A. In such event, on the number vesting shall be rounded to the nearest whole number with any fractional portion carried forward to the extent that the total RSUs vesting shall not exceed the total number of RSUs awarded to you in section 1. Each RSU Vesting Date each PSU earned will be converted into the right to receive one Share, a number of shares of Company Stock determined according to Exhibit A, and such Shares shares of Company Stock (after deducting sufficient whole Shares shares to satisfy the Company's tax withholding obligations) will be issued to you or your brokerage account as of the next trading day promptly as practical after the Vesting Date.

(b) Each incremental portion of the Award shall become vested on the last trading day of the New York Stock Exchange in November 20__, 20__ and 20__ (each, a "Vesting Date"), subject to section 2(d).

(c) Notwithstanding paragraph 2(a), if there is a Change of Control as defined in section 4(b), before the Shares have been issued to you under this Award and either:

(i) If the Change of Control results in the Company's common stock no longer being publicly held and traded on the New York Stock Exchange before all Shares under this Award have been issued to you under this Award and you are and have been continuously employed by the Company or a Subsidiary through and on the effective date of the Change of Control (the "CoC Effective Date"), then (A) below shall apply, or if the conditions in (A) cannot be met then (B) shall apply:

(A) Any unvested RSUs granted to you pursuant to this This Award Agreement shall be replaced by an equity award agreement of the Acquirer, provided all of the following conditions are met:

(i) The Acquirer's common stock is publicly held and widely traded on an established U.S. stock exchange, either NYSE or NASDAQ; and

- (II) ~~Such RSUs~~ ~~The PSUs constituting the Target Award~~ are converted to units of the Acquirer's common stock at a total value equal to the total value of the ~~RSUs Target Award~~ ("Replacement Units") under an equity award agreement ("Replacement Agreement") with terms at least as favorable as the terms of this Award Agreement. For the purposes of conversion, the value of the ~~RSUs Target Award~~ shall be calculated based on the average closing price of the Company shares for the ten days prior to the Change of Control and the value of the Replacement Units shall be calculated based on the average closing price of common stock of the Acquirer for the ten days prior to the Change of Control. The Replacement Agreement shall provide that each Replacement Unit when vested shall equal one share of ~~the Acquirer's~~ ~~Acquirer's~~ common stock (net of tax withholdings) will be distributed to you three years after the original date of the award of the ~~RSUs Target Award~~ ("Replacement Award"). Such Replacement Agreement shall not include the ownership requirements of section 3. The Replacement Agreement shall also provide that (a) Replacement Units shall vest and ~~the Acquirer's~~ ~~Acquirer~~ common stock will be issued to you equivalent to such Replacement Units ~~(net of tax withholdings) on the termination of your employment Without Cause or your termination with Good Reason (as defined in the Severance or Executive Severance Agreement), and (b) if you retire with at least 5 years of total employment with the Company and/or the Acquirer ("Retirement") then you shall receive the number of shares equal to the undistributed shares under this Award multiplied by the percentage which is the number of months elapsed during the Award Term as of the retirement date compared to the total number of months in the Award Term. If prior to the vesting of such Replacement Units your employment ends, other than for Retirement, Without Cause, or with Good Reason (as defined in the Severance or Executive Severance Agreement), Replacement Units shall not vest and the Replacement Award shall be cancelled.~~
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~~(net of tax withholdings) on the termination of your employment Without Cause or your termination with Good Reason (as defined in the Severance or Executive Severance Agreement), and (b) if you retire with at least 5 years of total employment with the Company and/or the Acquirer ("Retirement") then you shall receive the number of shares equal to the undistributed shares under this Award multiplied by the percentage which is the number of months elapsed during the Award Term as of the retirement date compared to the total number of months in the Award Term. If prior to the vesting of such Replacement Units your employment ends, other than for Retirement, Without Cause, or with Good Reason (as defined in the Severance or Executive Severance Agreement), Replacement Units shall not vest and the Replacement Award shall be cancelled.~~

- (B) ~~Any unvested RSUs granted to you pursuant to this~~ ~~This~~ Award Agreement shall not be replaced if the ~~Acquirer~~ ~~Successor Entity~~ determines ~~that~~ it will not or cannot replace the Award granted pursuant to this Agreement. In such event, the Award will be converted into the right to receive cash in an amount equal to the ~~number of unconverted RSUs~~ ~~Target Award~~ multiplied by the average of the daily closing price of the Company's common stock on the New York Stock Exchange over the last ten trading days preceding the CoC Effective Date, and such cash will be paid to you (net of tax withholdings) within 30 days after the CoC Effective Date.

(ii) If before a Change of Control, ~~any unvested RSUs~~ ~~the PSUs~~ under this Award have not been distributed to you in shares of Company Stock and you have been continuously employed by the Company or a Subsidiary and not more than ninety (90) days prior to the CoC Effective Date your employment with the Company or Subsidiary was terminated not because of your death, Disability, or for Cause, and such termination was done at the request of a third party who, at such time, had taken steps reasonably calculated to effect a Change of Control, and such Change of Control subsequently does occur then ~~the unvested RSUs~~ ~~this Award~~ will be converted into the right to receive cash in an amount equal to the ~~number of unvested RSUs~~ ~~Target Award~~ multiplied by the average of the daily closing price of the Company's common stock on the New York Stock Exchange over the last ten trading days preceding the CoC Effective Date, and such cash will be paid to you (net of tax withholdings) within 30 days after the CoC Effective Date.

- (iii) In the event of a Change of Control this subsection ~~2(c)~~ ~~2(b)~~ shall control all distributions of shares and compensation under this Award.

However, in such event, the following additional terms will apply to the Award:

- (A) (i) Notwithstanding the foregoing provisions of this section 2(c) 2(b), in the event a certified public accounting firm designated by the Committee (the "Accounting Firm") determines that any payment (whether paid or payable pursuant to the terms of this Award or otherwise and each such payment hereinafter defined as a "Payment" and all Payments in the aggregate hereinafter defined as the "Aggregate Payment"), would subject you to tax under Section 4999 of the Internal Revenue Code of 1986 ("Code") then such Accounting Firm shall determine whether some amount of payments would meet the definition of a "Reduced Amount". If the Accounting Firm determines that there is a Reduced Amount, payments shall be reduced so that the Aggregate Payments shall equal such Reduced Amount. For purposes of this clause 2(c) 2(d)(i), the "Reduced Amount" shall be the largest Aggregate Payment which (A) is less than the sum of all Payments and (B) results in aggregate Net After Tax Receipts which are equal to or greater than the Net After Tax Receipts which would result if Payments were made without regard to this clause 2(c)(i). "Net After Tax Receipt" means the Present Value (defined under Section 280G(d)(4) of the Code) of a Payment net of all taxes imposed on you under Section 1 and 4999 of the Code by applying the highest marginal rate under Section 1 of the Code.
- (B) (ii) As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination of the Accounting Firm hereunder, it is possible that Payments will be made by the Company or a Subsidiary which should not have been made (the "Overpayments") or that additional Payments which the Company or a Subsidiary has not made could have been made (the "Underpayments"), in each case consistent with the calculations of the Accounting Firm. In the event that the Accounting Firm, based either upon (A) the assertion of a deficiency by the Internal Revenue Service against the Company or a Subsidiary or you which the Accounting Firm believes has a high probability of success or (B) controlling precedent or other substantial authority, determines that an Overpayment has been

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made, any such Overpayment shall be treated for all purposes as a loan to you which you shall repay to the Company or Subsidiary together with interest at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code; provided, however, that no amount shall be payable by you to the Company or Subsidiary if and to the extent such payment would not reduce the amount which is subject to taxation under Section 1 and Section 4999 of the Code or if the period of limitations for assessment of tax has expired. In the event that the Accounting Firm, based upon controlling precedent or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company or Subsidiary to you together with interest at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

(c) Notwithstanding any other provision of this section 2:

(d) Notwithstanding any other provision of this section 2:

(i) If on or before a the Vesting Date your employment terminates on account of your death or Disability, then the Committee, in its absolute discretion, may make such full, pro-rata, or no distribution of Company Stock in satisfaction of the unvested portion of this Award as it may determine, either to you or, if termination is on account of death, to your surviving spouse, heirs or estate as it may determine, all in its sole and complete discretion; or

(ii) If on or before a the Vesting Date your employment terminates on account of your retirement with the approval of the Committee, then:

- (A) If the effective date of retirement is less than 12 months after the Award Date, this Award shall be forfeited and no distribution shall be made; otherwise
- (B) The Target Award in this Award shall be prorated based on the number of months elapsed during the Award term as of the effective date of retirement o

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- (B) The total number of RSUs in this Award shall be prorated based on the number of months elapsed during the Award term as of the effective date of retirement compared to the total number of months in the original Award term; and any remaining RSUs in the prorated Award (prorated Award less previously vested RSUs) shall vest as of the effective date of retirement and shall be converted and paid out as provided in section 2(a).

(e)(d) It is intended that all payments and benefits under this Agreement be exempt from Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") and this Agreement shall be construed to the greatest extent possible as consistent with those provisions. If not so exempt, this Agreement shall, to the extent permissible, be construed in a manner that complies with Section 409A and incorporates by reference all required definitions and payment terms. Notwithstanding the foregoing, the Company makes no representation that this Agreement is exempt from Section 409A and shall have no liability to you for any failure to comply with Section 409A. You will be fully responsible for any and all taxes or other amounts imposed by Section 409A.

3. **Share Ownership Requirements.** You are expected to acquire and retain Shares with a fair market value equal to a specified multiple of your **base salary total cash compensation** (your "Share Ownership Requirement"). If you do not currently meet your Share Ownership Requirement, you must retain 100% of any Award distribution which you receive under section 2 (which will be net of any tax withholdings) until your Share Ownership Requirement is satisfied. Thereafter you must maintain ownership of a sufficient number of Shares to ensure that your Share Ownership Requirement remains satisfied. The satisfaction of the requirements of this section 3 will be reviewed periodically as determined by the Committee. In addition, you may not dispose of any portion of the beneficial interest in Shares received (net of any **Shares withheld** **withheld Shares**) on account of the Award within 12 months after the Shares are delivered to you, or such earlier time as you cease to be a "named executive officer" of the Company.

4. **Definitions.** For purposes of this Award, the following terms have the following meanings:

(a) "**Cause**" means, solely for the purposes of this Award:

(i) Your willful and continued failure to perform substantially all of your duties with the Company or a Subsidiary to which you report (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for such performance is delivered to you by the Company's Chief Executive Officer ("CEO") or the President of the Subsidiary to which you report, which specifically identifies the manner in which the CEO or President believes that you have not substantially performed your duties, or

(ii) Your willful engagement in (A) illegal conduct (other than minor traffic offenses), or (B) conduct which is in breach of your fiduciary duty to the Company or **subsidiary** **Subsidiary** and which is demonstrably injurious to the Company or **subsidiary**, **Subsidiary**, its reputation or its business prospects.

For purposes of this definition, no act or failure to act on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company and its subsidiaries. Any act, or failure to act, based upon the instructions of your superior or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company and its subsidiaries.

(b) "**Change of Control**" means:

(i) The purchase or other acquisition by any person, entity or group of persons (herein "Acquirer"), within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then-outstanding shares of common stock of the Company or the combined voting power of the Company's then-outstanding voting securities entitled to vote at any general or special meeting of shareholders; or

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

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

Notwithstanding the foregoing, an isolated sale, spin-off, joint venture or other business combination by the Company, which involves one or more divisions of the Company or a Subsidiary and is approved by a majority vote of the Incumbent Board, shall not be deemed to be a Change of Control.

(c) "**Company Stock**" means the common stock of the Company.

(d) "**Disability**" means your absence from your duties with the Company or Subsidiary on a full-time basis for ninety (90) consecutive business days as a result of incapacity due to mental or physical illness which incapacity is determined to be total and permanent by a physician selected by the Company or its insurers.

5. Taxes. Shares issued pursuant to this Award shall be valued for tax purposes at the closing price of the Company's common stock on the New York Stock Exchange on the Vesting **Date**, **Date**, or if the Company's common stock is not traded on such Exchange on the Vesting Date, then on the first day after the Vesting Date on which the Company's common stock is traded on such Exchange. Sufficient Shares or cash, as the case may be, shall be withheld from any distribution hereunder to satisfy the Company's tax withholding requirements in respect of such distribution.

6. Dividends. On each regular quarterly dividend date occurring from the Award **Date date** to and including the **Vesting Date**, **vesting date**, the Company will accrue for your benefit an amount equal to the cash dividend which would have been paid on a number of shares of common stock equal to the **number of RSUs**, **Target Award**. The **amount** accrued with respect to each vested dividends on the earned Award, if any, will be distributed in cash at the time the earned Award is distributed. The accrued dividends on any unearned portion of the Award will be paid to you in cash at the time such portion of the Award is distributed. However, if or to the extent the Award does not vest or for any reason is not distributed, a like portion of the accrued amount will be cancelled and not paid, **forfeited**.

7. Covenants.

(a) To the extent that you engage in conduct described in section 7(b) during the period beginning on the Award Date and ending six (6) months after the date on which you receive the distribution of **Company Stock Shares** or cash, as the case may be, to which you are or become entitled under section 2 of this Award, you agree that the Company and/or any Subsidiary (as appropriate) shall be entitled to recover amounts as described in section 7(c).

(b) The conduct described in this section 7(b) is any of the following:

(i) As an individual or as a partner, employee, agent, advisor, consultant or in any other capacity of or to any person, firm, corporation or other entity, directly or indirectly carrying on any business or becoming involved in any business activity, which is (A) competitive with the business of the Company or any Subsidiary, as presently conducted and as said business may evolve in the ordinary course, and (B) a business or business activity in which you were engaged in the course of your employment with the Company or any Subsidiary; but notwithstanding the foregoing, nothing herein shall prevent you from being a 2% or less shareholder of a publicly traded corporation;

(ii) As an individual or as a partner, employee, agent, advisor, consultant or in any other capacity of or to any person, firm, corporation or other entity, directly or indirectly recruiting, soliciting or hiring, or assisting anyone else in recruiting, soliciting or hiring, any employee of the Company or any Subsidiary;

(iii) Inducing or attempting to induce, or assisting anyone else to induce or attempt to induce, any customer of the Company or any Subsidiary to discontinue its business with the Company or Subsidiary;

(iv) Engaging in the unauthorized use or disclosure of confidential information or trade secrets of the Company or any Subsidiary resulting in harm to the Company or any Subsidiary; or

(v) Engaging in intentional misconduct resulting in a financial restatement or in an increase in your incentive, bonus, equity compensation or other non-base compensation.

(c) In the event you engage in conduct described in section 7(b), the Company and/or any Subsidiary (as appropriate) shall be entitled:

(i) To cancel this Award; and/or

(ii) **(ii)** To recover from you (1) any Shares or cash, as the case may be, transferred to you under this Award during any period(s) (A) that you were in breach of any of the above described covenants or (B) in the case of intentional misconduct resulting in a financial restatement during the periods that required restatement, but in either case not to exceed three years, and (2) the proceeds from any sales of such shares during the above time periods to the extent such shares transferred to you under this Award have been sold or retained by the Company to pay your taxes. The Committee shall have sole discretion in determining the amount that shall be recovered from you under this subsection (ii).

(d) **Shares or cash, as the case may be, transferred to you under this Award Agreement shall be subject to recovery by the Company under the Company's Supplemental Clawback Policy effective as of October 2, 2023, and any amendments or replacements thereof.**

8.Choice of Law; Venue. This Award shall be construed and administered in accordance with the laws of the State of Missouri without regard to the principles of conflicts of law which might otherwise apply. In light of the fact that the Company is headquartered in St. Louis, Missouri, the Plan was established and is administered in the State of Missouri and the majority of the Committee's meetings are held in the State of Missouri, any litigation concerning any aspect of this Award shall be conducted exclusively in the State or Federal Courts in the State of Missouri.

9. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law. If any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, (a) the parties agree that such provision(s) will be enforced to the maximum extent

permissible under the applicable law, and (b) any invalidity, illegality or unenforceability of a particular provision will not affect any other provision of this Agreement.

10. Amendment. This Award may be amended by written consent between the Company and you, or by the Company to the extent it does not lessen or restrict your rights hereunder.

11. **Understanding of Agreement.** You acknowledge that you have had a reasonable period of time to study, understand, and consider this Agreement, that you have the right to consult with counsel of your choice prior to signing the Agreement, that you have read the Agreement and understand all of its terms, that you are entering into the Agreement knowingly and voluntarily, that in so doing you are not relying upon any statements or representations of the Company or its agents other than as expressly provided in this Agreement, and that the Agreement is fair and reasonable.

This Agreement will become effective as of the Award Date subject to your execution below.

ESCO TECHNOLOGIES INC.

AGREED TO AND ACCEPTED:

By: _____
Vice President

Participant(sign by typing your name)

Date Signed: _____

Date Signed: _____

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EXHIBIT A TO
FISCAL YEAR 20__ PERFORMANCE SHARE UNIT AWARD AGREEMENT

Award Recipient: _____ ("you")
Award Date: November __, 20__
Target Award: _____ Performance Share Units

The Company has awarded you a number of Performance Share Units ("PSUs"), as set forth in the Performance Share Unit Award Agreement to which this Exhibit is attached and which is incorporated by reference (the "Award"). Capitalized terms used in the Exhibit have the meanings given herein, or in the Award Agreement or the Plan, as the case may be.

Performance Period: The three-year period beginning on October 1, 20__ and ending on September 30, 20__.

Performance Measures: EBITDA and Return on Invested Capital ("ROIC"). See Performance Goal Table below and related Notes.

The last trading day of the month in which the Committee approves the resolution certifying (i) the performance achieved for each Performance Measure relative to the Performance Goal, and (ii) the rTSR Modifier, if applicable. The Committee will review the level of achievement of the Performance Goals and the applicability of the rTSR Modifier generally at the Committee meeting most closely following the end of the Performance Period. Any earned portion of the award will be converted into shares of Company Stock and distributed on the next trading day after the vesting date.

Vesting Date: When applicable, the Relative Total Shareholder Return ("rTSR") Modifier will be applied to the number of the Shares earned by achievement of the Performance Goals. See rTSR Modifier Table below and related Notes.

rTSR Modifier:

If the Award conditions are satisfied, then on the Vesting Date set forth above, the Target Award will be converted into a number of shares of the Company's common stock ("Shares") determined by (i) the percentage of the Performance Goal for each Performance Measure that was achieved by the end of the Performance Period (see Performance Goal Table); and (ii) by application of the rTSR Modifier, if warranted. The rTSR Modifier will adjust the number of shares earned for each Performance Measure in circumstances described in the rTSR Modifier Table and Notes.

For performance between the Threshold and Target Performance Levels or between the Target and Maximum Performance Levels, the PSU conversion rate for each Performance Measure will be interpolated between the levels on a straight-line basis, rounded down to the nearest whole number of Shares. Failure to achieve the Threshold Performance Level for a Performance Measure will result in no Shares being issued for the PSUs in the portion of the Award which is subject to that Performance Measure, and no additional Shares will be issued for performance exceeding the Maximum Performance Level for a Performance Measure.

The maximum number of PSUs subject to vest based on the achievement of the Performance Goals and application of the rTSR Modifier, as defined in the Performance Goal Table and the rTSR Modifier Table, is 200% of the Target Award.

Performance Goal Table for Fiscal 20__ PSU Awards

Performance Measure	Weight (Percent of Target Award)	Performance Level	Performance Goals	PSU Conversion Rate into Shares as Percent of Target
EBITDA (See Note A)	__%	Below Threshold	Achieve less than __% of EBITDA target	0%
		Threshold	Achieve __% of EBITDA target	50%

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ROIC (See Note B)	__%	Target	Cumulative EBITDA through Performance Period = \$____M	100%
		Maximum	Achieve __% of EBITDA target	200%
		Below Threshold	Achieve less than __% of ROIC target	0%
		Threshold	Achieve __% of ROIC target	50%
		Target	ROIC = ____% for FY 20__	100%
		Maximum	Achieve __% of ROIC target	200%

rTSR Modifier Table

(See Note C)

Company's TSR Rank compared to Peer Group	rTSR Modifier
Below 25 th percentile	0.____
25 th – 75 th percentile	1.0
Above 75 th percentile	1.____

Notes:

(A) The EBITDA Target is based on EBITDA growth targets approved by the HRCC for the Performance Period. At the end of the Performance Period the cumulative results will be compared to the EBITDA Target and scored. If performance is at or above the Threshold then the payout percentage will be awarded according to the Performance Table (EBITDA Shares Earned). The EBITDA Shares Earned are further subject to the Modifier as described in the rTSR Modifier Table and Note C.

EBITDA will be defined and measured in accordance with generally accepted accounting principles (GAAP) and may include or exclude (or be adjusted to include or exclude) unusual or infrequently occurring items, the impact of charges for restructurings or productivity initiatives, non-operating items, discontinued operations and other unusual and non-recurring items, the effects of currency fluctuations, the effects of financial activities (by way of example, without limitation, the effect on earnings per share of issuing convertible debt securities), the effects of acquisitions and acquisition expenses, the effects of divestiture and divestiture expenses, and the effects of tax or accounting changes.

(B) The ROIC Target is based on ROIC targets approved by the HRCC for the Performance Period. At the end of the Performance Period the cumulative results will be compared to the ROIC Target and scored. If performance is at or above the Threshold then the payout percentage will be awarded according to

the Performance Table (ROIC Shares Earned). The ROIC Shares Earned are further subject to the rTSR Modifier as described in the rTSR Modifier Table and Note C.

ROIC will be defined and measured in accordance with generally accepted accounting principles (GAAP) and as it appears in the Company's monthly management POR reports. ROIC may include or exclude (or be adjusted to include or exclude) unusual or infrequently occurring items, the impact of charges for restructurings or productivity initiatives, non-operating items, discontinued operations and other unusual and non-recurring items, the effects of currency fluctuations, the effects of financial activities (by way of example, without limitation, the effect of earnings per share of issuing convertible debt securities), the effects of acquisitions and acquisition expenses, the effects of divestiture and divestiture expenses, and the effects of tax or accounting changes.

(C) When applicable, the rTSR Modifier will be applied to the number of shares earned for each Performance Measure based on the Company's TSR ranking compared against the TSR of companies in the S&P 600 Industrials Index ("Index") over the Performance Period. The member companies in the Index at the beginning of the Performance Period, excluding the Company, is the Peer Group.

The Peer Group will be adjusted, if applicable, for certain corporate actions during the Performance Period:

- a) A company shall be removed from the Peer Group if it: (i) ceases to be a domestically domiciled publicly traded company on a national stock exchange or market system, unless such cessation of such listing is due to a low stock price or low trading volume; (ii) has gone private; (iii) has reincorporated in a foreign (e.g., non-U.S.) jurisdiction regardless of whether it is a reporting company in that or another jurisdiction; or (iv) has been acquired by another company (whether by another company in the Peer Group or otherwise, but not including internal reorganizations) or has sold all or substantially all of its assets. A company that is removed from the Peer Group before the end of the Performance Period will be excluded from the calculation of TSR percentile ranking.
- b) If a member of the Peer Group acquires another company, the acquiring Peer Group company will remain in the Peer Group for the Performance Period;
- c) If a member of the Peer Group is delisted on all major stock exchanges, such delisted company will remain in the Peer Group, positioned below the lowest performing member of the Peer Group;
- d) Members of the Peer Group that file for bankruptcy, liquidation or similar reorganization during the Performance Period will remain in the Peer Group, positioned below the lowest performing nonbankrupt member of the Peer Group.

TSR means the stock price appreciation from the beginning to the end of the Performance Period, plus dividends and distributions made or declared during the Performance Period (it shall be assumed that such dividends or distributions are reinvested in the common stock of the Company or the applicable member of the Peer Group as of the ex-dividend date), expressed as a percentage return. TSR for the Company and each company in the Peer Group will be calculated by subtracting the Closing Average Share Value from the Opening Average Share Value (plus dividends and distributions during the Performance Period) then dividing that result by the Opening Average Share Value. For purposes of this Award, "Closing Average Share Value" means the average closing value of the common stock, for the 20 trading days ending on the last day of the Performance Period (i.e., the 20 trading days ending on September 30, 20__); "Opening Average Share Value" means the average of the closing price of a share of common stock for the 20 trading days preceding the start of the Performance Period. Once the TSR values are calculated for the Peer Group, the values will be numerically ranked. **The Company's TSR percentile rank will be determined relative to the TSR ranking of each company in the Peer Group to determine the rTSR Modifier as set forth in the rTSR Modifier Table.**

If the Company's rTSR percentile rank is below the 25th percentile or above the 75th percentile of the Peer Group, the total number of PSU's eligible to vest in accordance with this Exhibit and Award Agreement will be adjusted by the following formula but will not exceed 200% of the Target Award:

$$\text{Total PSUs earned} = \text{rTSR Modifier} * (\text{EBITDA Shares Earned} + \text{ROIC Shares Earned})$$

If the Company's rTSR percentile rank is between the 25th percentile and 75th percentile of the Peer Group, no rTSR Modifier will be applied:

$$\text{Total PSUs earned} = \text{EBITDA shares earned} + \text{ROIC shares earned}$$

CERTIFICATION

I, Bryan H. Sayler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ESCO Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023

/s/ Bryan H. Sayler

Bryan H. Sayler

President and Chief Executive Officer

CERTIFICATION

I, Christopher L. Tucker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ESCO Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023

/s/ Christopher L. Tucker

Christopher L. Tucker

Senior Vice President and Chief Financial Officer

Exhibit 32

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

In connection with the quarterly report of ESCO Technologies Inc. (the "Company" "Company") on Form 10-Q for the period ended June 30, 2023 December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report" "Report"), we, Bryan H. Saylor, President and

Chief Executive Officer of the Company, and Christopher L. Tucker, Senior Vice President and Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2023

/s/ Bryan H. Sayler

Bryan H. Sayler

President and Chief Executive Officer

ESCO Technologies Inc.

/s/ Christopher L. Tucker

Christopher L. Tucker

Senior Vice President and Chief Financial Officer

ESCO Technologies Inc.

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