

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, 2023

OR

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  
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.

Is this true?

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  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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.

| <b>Class</b>                            | <b>Shares outstanding at July 31, 2023</b> |
|---|--|
| Common stock, \$.01 par value per share | 25,782,563                                 |

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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<br>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                     | <u>213,243</u>                 | <u>189,564</u> |
| Earnings before income taxes                 | 35,506                         | 29,502         |
| Income tax expense                           | 7,563                          | 6,329          |
| Net earnings                                 | <u>\$ 27,943</u>               | <u>23,173</u>  |
| Earnings per share:                          |                                |                |
| Basic - Net earnings                         | <u>1.08</u>                    | <u>0.90</u>    |
| Diluted - Net earnings                       | <u>\$ 1.08</u>                 | <u>0.89</u>    |

See accompanying notes to condensed consolidated financial statements.

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

|  | <b>Nine Months Ended</b> |                |
|--|--------------------------|----------------|
|  | <b>June 30,</b>          | <b>2022</b>    |
|  | <b>2023</b>              | <b>2022</b>    |
| 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.

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

|   | Three Months Ended<br>June 30, |                 | Nine Months Ended<br>June 30, |                 |
|---|--------------------------------|-----------------|-------------------------------|-----------------|
|   | 2023                           | 2022            | 2023                          | 2022            |
| Net earnings  | \$ 27,943                      | 23,173          | 60,548                        | 51,280          |
| Other comprehensive income (loss), net of tax:      |                                |                 |                               |                 |
| Foreign currency translation adjustments            | (821)                          | (11,905)        | 12,926                        | (17,216)        |
| Total other comprehensive income (loss), net of tax | <u>(821)</u>                   | <u>(11,905)</u> | <u>12,926</u>                 | <u>(17,216)</u> |
| Comprehensive income                                | <u>\$ 27,122</u>               | <u>11,268</u>   | <u>73,474</u>                 | <u>34,064</u>   |

See accompanying notes to condensed consolidated financial statements.

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

|  | June 30,<br>2023    | September 30,<br>2022 |
|--|---------------------|-----------------------|
| <b>ASSETS</b>  |                     |                       |
| Current assets:  |                     |                       |
| Cash and cash equivalents  | \$ 56,052           | 97,724                |
| Accounts receivable, net of allowance for credit losses of \$8,112 and \$2,612, respectively                                 | 192,146             | 164,645               |
| Contract assets  | 128,284             | 125,154               |
| Inventories  | 192,493             | 162,403               |
| Other current assets   | 24,847              | 22,696                |
| Total current assets   | 593,822             | 572,622               |
| 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               |
| Goodwill   | 505,590             | 492,709               |
| Operating lease assets   | 40,314              | 29,150                |
| Other assets   | 10,028              | 9,538                 |
| Total assets   | <u>\$ 1,703,509</u> | <u>1,654,456</u>      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                     |                       |
| Current liabilities:   |                     |                       |
| Current maturities of long-term debt   | \$ 20,000           | 20,000                |
| Accounts payable   | 76,761              | 78,746                |
| Contract liabilities   | 122,526             | 125,009               |
| Accrued salaries   | 38,428              | 40,572                |
| Accrued other expenses   | 51,236              | 53,802                |
| Total current liabilities  | 308,951             | 318,129               |
| Deferred tax liabilities   | 78,585              | 82,023                |
| Non-current operating lease liabilities  | 36,815              | 24,853                |
| Other liabilities  | 44,115              | 48,294                |
| Long-term debt   | 128,000             | 133,000               |
| Total liabilities  | 596,466             | 606,299               |
| 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                   |
| Additional paid-in capital   | 305,555             | 301,553               |
| Retained earnings  | 959,381             | 905,022               |
| Accumulated other comprehensive loss, net of tax   | (18,839)            | (31,764)              |
| Less treasury stock, at cost: 4,995,414 and 4,854,997 common shares, respectively  | 1,246,405           | 1,175,118             |
| Total shareholders' equity   | (139,362)           | (126,961)             |
| Total liabilities and shareholders' equity   | <u>\$ 1,703,509</u> | <u>1,654,456</u>      |

See accompanying notes to condensed consolidated financial statements.

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

|   | <b>Nine Months Ended</b><br><b>June 30,</b> |                 |
|---|---|-----------------|
|   | <b>2023</b>                                 | <b>2022</b>     |
| <b>Cash flows from operating activities:</b>  |   |                 |
| 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   | <u>29,202</u>                               | <u>41,693</u>   |
| <b>Cash flows from investing activities:</b>  |   |                 |
| 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   | <u>(43,950)</u>                             | <u>(50,844)</u> |
| <b>Cash flows from financing activities:</b>  |   |                 |
| 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                                    | <u>(26,147)</u>                             | <u>18,116</u>   |
| 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  | <u>\$ 56,052</u>                            | <u>61,019</u>   |
| <b>Supplemental cash flow information:</b>  |   |                 |
| Interest paid   | \$ 5,564                                    | 1,685           |
| Income taxes paid (including state and foreign)                                     | <u>18,313</u>                               | <u>5,574</u>    |

See accompanying notes to condensed consolidated financial statements.

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

**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 are not necessarily indicative of the results for the entire 2023 fiscal year. References to the third quarters of 2023 and 2022 represent the fiscal quarters ended June 30, 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) 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<br>Ended June 30, |               | Nine Months<br>Ended June 30, |               |
|---|--------------------------------|---------------|-------------------------------|---------------|
|   | 2023                           | 2022          | 2023                          | 2022          |
| Weighted Average Shares Outstanding — Basic | 25,757                         | 25,856        | 25,808                        | 25,959        |
| Dilutive Restricted Shares                  | 70                             | 94            | 82                            | 91            |
| Adjusted Shares — Diluted                   | <u>25,827</u>                  | <u>25,950</u> | <u>25,890</u>                 | <u>26,050</u> |

**3. ACQUISITION**

On February 1, 2023, the Company acquired CMT Materials, LLC and its affiliate Engineered Syntactic Systems, LLC (CMT) for a purchase price of approximately \$18 million, net of cash acquired. CMT, based in Attleboro, Massachusetts, is a supplier of syntactic materials for buoyancy and specialty applications. Since the date of acquisition, the operating results for the CMT business have been included as part of Globe in the A&D segment. The acquisition date fair value of the assets acquired and liabilities assumed primarily were as follows: approximately \$1.7 million of accounts receivable, \$ 3.0 million of inventory, \$1.3 million of property, plant and equipment, \$1.2 million of accounts payable and accrued expenses, \$ 7.3 million of identifiable intangible assets, mainly consisting of customer relationships totaling \$6.2 million. The acquired goodwill of \$5.6 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 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 compensation plan.

*Performance-Accelerated Restricted Stock Unit (PARS) Awards and Time-Vested Restricted Stock Unit (RSU) Awards*

Compensation expense related to the PARS/RSU awards was \$ 1.4 million and \$6.0 million for the three and nine-month periods ended June 30, 2023, respectively, and \$1.6 million and \$4.4 million for the corresponding periods in 2022. As of June 30, 2023, there were 196,648 unvested stock units outstanding.

### Non-Employee Directors Plan

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

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 and \$ 7.0 million for the three and nine-month periods ended June 30, 2023, respectively, and \$1.9 million and \$5.3 million for the corresponding periods in 2022. The total income tax benefit recognized in results of operations for share-based compensation arrangements was \$0.2 million and \$0.9 million for the three and nine-month periods ended June 30, 2023, respectively, and \$0.4 million and \$1.0 million for the corresponding periods in 2022. As of June 30, 2023, there was \$10.7 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 years.

### 5. INVENTORIES

Inventories consist of the following:

| (In thousands)    | June 30,<br>2023  | September 30,<br>2022 |
|-------------------|-------------------|-----------------------|
| Finished goods    | \$ 37,082         | 32,471                |
| Work in process   | 48,579            | 38,492                |
| Raw materials     | 106,832           | 91,440                |
| Total inventories | <u>\$ 192,493</u> | <u>162,403</u>        |

### 6. GOODWILL AND OTHER INTANGIBLE ASSETS

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

| (Dollars in thousands)                     | June 30,<br>2023  | September 30,<br>2022 |
|--|-------------------|-----------------------|
| Goodwill                                   | <u>\$ 505,590</u> | <u>492,709</u>        |
| Intangible assets with determinable lives: |                   |                       |
| Patents                                    |                   |                       |
| Gross carrying amount                      | \$ 2,433          | 2,353                 |
| Less: accumulated amortization             | 1,186             | 1,091                 |
| Net  | <u>\$ 1,247</u>   | <u>1,262</u>          |
| Capitalized software                       |                   |                       |
| Gross carrying amount                      | \$ 118,529        | 106,583               |
| Less: accumulated amortization             | 77,308            | 70,476                |
| Net  | <u>\$ 41,221</u>  | <u>36,107</u>         |
| Customer relationships                     |                   |                       |
| Gross carrying amount                      | \$ 298,110        | 287,447               |
| Less: accumulated amortization             | 109,186           | 96,921                |
| Net  | <u>\$ 188,924</u> | <u>190,526</u>        |
| Other                                      |                   |                       |
| Gross carrying amount                      | \$ 14,345         | 13,985                |
| Less: accumulated amortization             | 9,271             | 7,440                 |
| Net  | <u>\$ 5,074</u>   | <u>6,545</u>          |
| Intangible assets with indefinite lives:   |                   |                       |
| Trade names                                | <u>\$ 161,952</u> | <u>160,024</u>        |

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

| (Dollars in millions)                | 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          |
| Foreign currency translation         | 7.3             | —           | —                   | 7.3          |
| Balance as of June 30, 2023          | <u>\$ 356.0</u> | <u>34.0</u> | <u>115.6</u>        | <u>505.6</u> |

## 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, Utility Solutions Group (USG), and RF Shielding and Test (Test).

The Aerospace & Defense 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). 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; 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.

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 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 to identify, measure and contain magnetic, electromagnetic and acoustic energy. ETS-Lindgren also manufactures radio frequency shielding products and components used by manufacturers of medical equipment, communications systems, electronic products, and shielded rooms for high-security data processing and secure communication.

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<br>Ended June 30, |                 | Nine Months<br>Ended June 30, |                 |
|-------------------------------------|--------------------------------|-----------------|-------------------------------|-----------------|
|                                     | 2023                           | 2022            | 2023                          | 2022            |
| <b>NET SALES</b>                    |                                |                 |                               |                 |
| Aerospace & Defense                 | \$ 103,469                     | 92,606          | 285,434                       | 247,671         |
| USG                                 | 89,966                         | 67,201          | 240,172                       | 194,877         |
| Test                                | 55,314                         | 59,259          | 157,780                       | 158,456         |
| <b>Consolidated totals</b>          | <b>\$ 248,749</b>              | <b>219,066</b>  | <b>683,386</b>                | <b>601,004</b>  |
| <b>EBIT</b>                         |                                |                 |                               |                 |
| Aerospace & Defense                 | \$ 21,665                      | 20,738          | 52,996                        | 45,042          |
| USG                                 | 20,351                         | 13,135          | 50,543                        | 37,840          |
| Test                                | 8,643                          | 8,354           | 21,280                        | 20,813          |
| Corporate (loss)                    | <b>(12,658)</b>                | <b>(11,394)</b> | <b>(40,642)</b>               | <b>(34,604)</b> |
| <b>Consolidated EBIT</b>            | <b>38,001</b>                  | <b>30,833</b>   | <b>84,177</b>                 | <b>69,091</b>   |
| Less: Interest expense              | (2,495)                        | (1,331)         | (6,422)                       | (3,084)         |
| <b>Earnings before income taxes</b> | <b>\$ 35,506</b>               | <b>29,502</b>   | <b>77,755</b>                 | <b>66,007</b>   |

#### 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,<br>2023  | September 30,<br>2022 |
|---|-------------------|-----------------------|
|   | \$ 148,000        | \$ 153,000            |
| Total borrowings                                  | (20,000)          | (20,000)              |
| <b>Total long-term debt, less current portion</b> | <b>\$ 128,000</b> | <b>133,000</b>        |

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 banks led by JP Morgan Chase Bank, N.A., as Administrative Agent. The Credit Facility matures September 27, 2024, with balance due by this date.

At June 30, 2023, the Company had approximately \$345 million available to borrow under the Credit Facility, plus the \$250 million increase option, subject to lenders' consent, in addition to \$56.1 million cash on hand. The Company classified \$20 million as the current portion of long-term debt as of June 30, 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 at June 30, 2023.

Interest on borrowings under the Credit Facility is calculated at a spread over either the Standard Overnight Financing Rate (SOFR) or the prime rate depending on various factors. The Credit Facility also requires a facility fee ranging from 10 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% 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. As of June 30, 2023, the Company was in compliance with all covenants.

#### 9. INCOME TAX EXPENSE

The third quarter 2023 effective income tax rate was 21.3% compared to 21.5% in the third quarter of 2022. The effective income tax rate in 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.

#### 10. SHAREHOLDERS' EQUITY

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

|   | Three Months Ended June 30, |           | Nine Months Ended June 30, |           |
|---|-----------------------------|-----------|----------------------------|-----------|
|   | 2023                        | 2022      | 2023                       | 2022      |
| Common stock                                  |                             |           |                            |           |
| Beginning balance                             | 308                         | 307       | 307                        | 307       |
| Stock plans                                   | —                           | —         | 1                          | —         |
| Ending balance                                | 308                         | 307       | 308                        | 307       |
| Additional paid-in-capital                    |                             |           |                            |           |
| Beginning balance                             | 304,184                     | 298,353   | 301,553                    | 297,644   |
| Stock plans                                   | 1,371                       | 1,510     | 4,002                      | 2,219     |
| Ending balance                                | 305,555                     | 299,863   | 305,555                    | 299,863   |
| Retained earnings                             |                             |           |                            |           |
| Beginning balance                             | 933,499                     | 854,946   | 905,022                    | 830,989   |
| Net earnings                                  | 27,943                      | 23,173    | 60,548                     | 51,280    |
| Dividends paid                                | (2,061)                     | (2,069)   | (6,189)                    | (6,219)   |
| Ending balance                                | 959,381                     | 876,050   | 959,381                    | 876,050   |
| Accumulated other comprehensive income (loss) |                             |           |                            |           |
| Beginning balance                             | (18,018)                    | (7,472)   | (31,764)                   | (2,161)   |
| Foreign currency translation                  | (821)                       | (11,905)  | 12,925                     | (17,216)  |
| Ending balance                                | (18,839)                    | (19,377)  | (18,839)                   | (19,377)  |
| Treasury stock                                |                             |           |                            |           |
| Beginning balance                             | (139,178)                   | (124,961) | (126,961)                  | (107,083) |
| Share repurchases                             | (184)                       | (2,000)   | (12,401)                   | (19,878)  |
| Ending balance                                | (139,362)                   | (126,961) | (139,362)                  | (126,961) |
| Total equity                                  | 1,107,043                   | 1,029,882 | 1,107,043                  | 1,029,882 |

## 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.
- 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 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.

## 12. REVENUES

### *Disaggregation of Revenues*

Revenues by customer type, geographic location, and revenue recognition method for the three and nine-month periods ended June 30, 2023 are presented in the tables 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 below also include a reconciliation of the disaggregated revenue within each reportable segment.

| <i>Three months ended June 30, 2023<br/>(In thousands)</i> | <b>Aerospace<br/>&amp; Defense</b> | <b>USG</b>        | <b>Test</b>       | <b>Total</b>      |
|--|------------------------------------|-------------------|-------------------|-------------------|
| <b>Customer type:</b>                                      |                                    |                   |                   |                   |
| 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> |
| <b>Geographic location:</b>                                |                                    |                   |                   |                   |
| 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> |
| <b>Revenue recognition method:</b>                         |                                    |                   |                   |                   |
| 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> |
| <i>Nine months ended June 30, 2023<br/>(In thousands)</i>  | <b>Aerospace<br/>&amp; Defense</b> | <b>USG</b>        | <b>Test</b>       | <b>Total</b>      |
| <b>Customer type:</b>                                      |                                    |                   |                   |                   |
| Commercial   | \$ 136,271                         | \$ 236,715        | \$ 137,587        | \$ 510,573        |
| Government   | 149,163                            | 3,457             | 20,193            | 172,813           |
| Total revenues   | <u>\$ 285,434</u>                  | <u>\$ 240,172</u> | <u>\$ 157,780</u> | <u>\$ 683,386</u> |
| <b>Geographic location:</b>                                |                                    |                   |                   |                   |
| United States  | \$ 237,481                         | \$ 154,410        | \$ 87,253         | \$ 479,144        |
| International  | 47,953                             | 85,762            | 70,527            | 204,242           |
| Total revenues   | <u>\$ 285,434</u>                  | <u>\$ 240,172</u> | <u>\$ 157,780</u> | <u>\$ 683,386</u> |
| <b>Revenue recognition method:</b>                         |                                    |                   |                   |                   |
| Point in time  | \$ 129,355                         | \$ 194,240        | \$ 32,565         | \$ 356,160        |
| Over time  | 156,079                            | 45,932            | 125,215           | 327,226           |
| Total revenues   | <u>\$ 285,434</u>                  | <u>\$ 240,172</u> | <u>\$ 157,780</u> | <u>\$ 683,386</u> |

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

| <i>Three months ended June 30, 2022<br/>(In thousands)</i> | <b>Aerospace<br/>&amp; Defense</b> | <b>USG</b>               | <b>Test</b>              | <b>Total</b>             |
|--|------------------------------------|--------------------------|--------------------------|--------------------------|
| <b>Customer type:</b>                                      |                                    |                          |                          |                          |
| Commercial   | \$ 38,918                          | \$ 65,610                | \$ 54,449                | \$ 158,977               |
| Government   | <u>53,688</u>                      | <u>1,591</u>             | <u>4,810</u>             | <u>60,089</u>            |
| Total revenues   | <u><u>\$ 92,606</u></u>            | <u><u>\$ 67,201</u></u>  | <u><u>\$ 59,259</u></u>  | <u><u>\$ 219,066</u></u> |
| <b>Geographic location:</b>                                |                                    |                          |                          |                          |
| United States  | \$ 79,536                          | \$ 41,822                | \$ 34,662                | \$ 156,020               |
| International  | <u>13,070</u>                      | <u>25,379</u>            | <u>24,597</u>            | <u>63,046</u>            |
| Total revenues   | <u><u>\$ 92,606</u></u>            | <u><u>\$ 67,201</u></u>  | <u><u>\$ 59,259</u></u>  | <u><u>\$ 219,066</u></u> |
| <b>Revenue recognition method:</b>                         |                                    |                          |                          |                          |
| Point in time  | \$ 35,238                          | \$ 53,656                | \$ 15,827                | \$ 104,721               |
| Over time  | <u>57,368</u>                      | <u>13,545</u>            | <u>43,432</u>            | <u>114,345</u>           |
| Total revenues   | <u><u>\$ 92,606</u></u>            | <u><u>\$ 67,201</u></u>  | <u><u>\$ 59,259</u></u>  | <u><u>\$ 219,066</u></u> |
| <i>Nine months ended June 30, 2022<br/>(In thousands)</i>  | <b>Aerospace<br/>&amp; Defense</b> | <b>USG</b>               | <b>Test</b>              | <b>Total</b>             |
| <b>Customer type:</b>                                      |                                    |                          |                          |                          |
| Commercial   | \$ 100,407                         | \$ 191,832               | \$ 147,390               | \$ 439,629               |
| Government   | <u>147,264</u>                     | <u>3,045</u>             | <u>11,066</u>            | <u>161,375</u>           |
| Total revenues   | <u><u>\$ 247,671</u></u>           | <u><u>\$ 194,877</u></u> | <u><u>\$ 158,456</u></u> | <u><u>\$ 601,004</u></u> |
| <b>Geographic location:</b>                                |                                    |                          |                          |                          |
| United States  | \$ 212,849                         | \$ 122,021               | \$ 88,708                | \$ 423,578               |
| International  | <u>34,822</u>                      | <u>72,856</u>            | <u>69,748</u>            | <u>177,426</u>           |
| Total revenues   | <u><u>\$ 247,671</u></u>           | <u><u>\$ 194,877</u></u> | <u><u>\$ 158,456</u></u> | <u><u>\$ 601,004</u></u> |
| <b>Revenue recognition method:</b>                         |                                    |                          |                          |                          |
| Point in time  | \$ 99,464                          | \$ 155,693               | \$ 43,488                | \$ 298,645               |
| Over time  | <u>148,207</u>                     | <u>39,184</u>            | <u>114,968</u>           | <u>302,359</u>           |
| Total revenues   | <u><u>\$ 247,671</u></u>           | <u><u>\$ 194,877</u></u> | <u><u>\$ 158,456</u></u> | <u><u>\$ 601,004</u></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, the Company had \$705.4 million in remaining performance obligations of which the Company expects to recognize revenues of approximately 79% in the next twelve months.

#### *Contract assets and liabilities*

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, contract assets and liabilities totaled \$128.3 million and \$133.6 million, respectively. During the first nine months of 2023, the Company recognized approximately \$ 81 million in revenues that were included in the contract liabilities balance at September 30, 2022. At September 30, 2022, contract assets and liabilities totaled \$125.2 million and \$137.6 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. 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:

| (Dollars in thousands)              | Three Months Ended |  | Three Months Ended |  |
|-------------------------------------|--------------------|--|--------------------|--|
|                                     | June 30,<br>2023   |  | June 30,<br>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              |  |
| <b>Total lease costs</b>            | <b>\$ 2,481</b>    |  | <b>\$ 2,212</b>    |  |

| (Dollars in thousands)              | Nine Months Ended June 30, 2023 | Nine Months Ended June 30, 2022 |
|-------------------------------------|---------------------------------|---------------------------------|
| Finance lease cost                  |                                 |                                 |
| Amortization of right-of-use assets | \$ 1,179                        | \$ 1,219                        |
| Interest on lease liabilities       | 698                             | 753                             |
| Operating lease cost                | 5,356                           | 4,731                           |
| Total lease costs                   | \$ 7,233                        | \$ 6,703                        |

Additional information related to leases are shown below:

| (Dollars in thousands)   | Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 |
|--|----------------------------------|----------------------------------|
| 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                              |

| (Dollars in thousands)   | Nine Months Ended June 30, 2023 | Nine Months Ended June 30, 2022 |
|--|---------------------------------|---------------------------------|
| Cash paid for amounts included in the measurement of lease liabilities   |                                 |                                 |
| Operating cash flows from operating leases                               | \$ 5,172                        | \$ 4,521                        |
| Operating cash flows from finance leases                                 | 698                             | 753                             |
| Financing cash flows from finance leases                                 | 991                             | 971                             |
| Right-of-use assets obtained in exchange for operating lease liabilities | 14,984                          | 1,813                           |

|                                       | June 30, 2023 | June 30, 2022 |
|---------------------------------------|---------------|---------------|
| Weighted-average remaining lease term |               |               |
| Operating leases                      | 11.4 years    | 9.7 years     |
| Finance leases                        | 11.3 years    | 12.0 years    |
| Weighted-average discount rate        |               |               |
| Operating leases                      | 4.42 %        | 3.12 %        |
| Finance leases                        | 4.62 %        | 4.59 %        |

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 Consolidated Balance Sheet on June 30, 2023:

| (Dollars in thousands)                               | Operating<br>Leases | Finance<br>Leases |
|--|---------------------|-------------------|
| <b>Years Ending September 30:</b>                    |                     |                   |
| 2023 (excluding the nine months ended June 30, 2023) | \$ 1,796            | 566               |
| 2024   | 6,458               | 2,315             |
| 2025   | 5,168               | 2,370             |
| 2026   | 4,300               | 2,434             |
| 2027 and thereafter                                  | 36,913              | 18,997            |
| Total minimum lease payments                         | 54,635              | 26,682            |
| Less: amounts representing interest                  | 12,570              | 6,491             |
| Present value of net minimum lease payments          | \$ 42,065           | 20,191            |
| Less: current portion of lease obligations           | 5,250               | 1,415             |
| Non-current portion of lease obligations             | 36,815              | 18,776            |
| ROU assets   | \$ 40,314           | 16,164            |

Operating lease liabilities are included in 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.

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

### RESULTS OF OPERATIONS

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

#### OVERVIEW

In the third quarter of 2023, sales, net earnings and diluted earnings per share were \$248.7 million, \$27.9 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 per share, respectively, in the first nine months of 2022.

#### NET SALES

In the third quarter of 2023, net sales of \$248.7 million were \$29.6 million, or 13.5%, 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 in the first nine months of 2022. The increase in net sales in the third quarter of 2023 as compared to the third quarter of 2022 was due to a \$22.8 million increase in the USG segment, and a \$10.9 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 decrease in the Test segment.

##### *-Aerospace & Defense (A&D)*

In the third quarter of 2023, net sales of \$103.5 million were \$10.9 million, or 11.8%, 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 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. The sales increase in the first nine months of 2023 compared to the first nine months of 2022 was mainly due to an \$18.3 million increase in net sales at Mayday, a \$9.6 million increase in net sales at PTI, an \$8.4 million increase in net sales at Crissair, and a \$2.6 million increase in net sales at Globe/Westland combined, partially offset by a \$1.4 million decrease in net sales at VACCO. The increase in net sales at Mayday, PTI and Crissair 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.

##### *-USG*

In the third quarter of 2023, 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 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 were \$4.0 million, or 6.7%, 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 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. The decrease in the first nine months of 2023 compared to the first nine months of 2022 was 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 sales from the segment's European and U.S. operations due to timing of test and measurement chamber projects.

## ORDERS AND BACKLOG

Backlog was \$705.4 million at June 30, 2023 compared with \$695.0 million at September 30, 2022. 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 in the first nine months of 2023 compared to \$715.8 million in the first nine months of 2022. Of the new orders received in the first nine months of 2023, \$290.9 million related to Aerospace & Defense products, \$250.3 million related to USG products, and \$152.6 million related to Test products. Of the new orders received in the first nine months of 2022, \$295.0 million related to Aerospace & Defense products, \$227.1 million related to USG products, and \$193.7 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% of net sales) for the first nine months of 2022. The increase in SG&A in the first nine months of 2023 compared to the corresponding periods of 2022 was mainly due to higher expenses at Corporate due to executive management transition costs and professional fees and higher expenses at Doble as a result of increased sales and marketing and event costs.

## AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets was \$7.1 million and \$21.0 million for the third quarter and first nine months of 2023, respectively, compared to \$6.4 million and \$19.4 million for the corresponding periods of 2022. Amortization expenses consist of amortization of acquired intangible assets from acquisitions and other identifiable intangible assets (primarily software). The increase in amortization expense in the third quarter and first nine months of 2023 compared to the corresponding periods of 2022 was mainly due to the Company's recent acquisition of CMT.

## 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 in the first nine months of 2023 compared to (\$0.7) million of income 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 quarter or first nine months of 2022.

## 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% of net sales) for the first nine months of 2022.

The following table presents a reconciliation of EBIT to net earnings.

| (In thousands)              | Three Months Ended |               | Nine Months Ended |               |
|-----------------------------|--------------------|---------------|-------------------|---------------|
|                             | June 30,<br>2023   | 2022          | June 30,<br>2023  | 2022          |
| Net earnings                | \$ 27,943          | 23,173        | 60,548            | 51,280        |
| Plus: Interest expense, net | 2,495              | 1,331         | 6,422             | 3,084         |
| Plus: Income tax expense    | 7,563              | 6,329         | 17,207            | 14,727        |
| Consolidated EBIT           | <u>\$ 38,001</u>   | <u>30,833</u> | <u>84,177</u>     | <u>69,091</u> |

– 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% of net sales) in the first nine months of 2022. The increase in EBIT in the third quarter and first nine months of 2023 compared to the corresponding periods of 2022 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.

-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% of net sales) in the first nine months of 2022. The increase in EBIT in the third quarter and first nine months of 2023 compared to the corresponding periods of 2022 was mainly due to the higher sales volumes at Doble and NRG as mentioned above and price increases, partially offset by the impacts of wage and material cost inflation and increased commissions, travel, and tradeshow expenses. EBIT in the first nine months of 2022 was negatively impacted by approximately \$0.5 million of inventory step-up charges related to the Altanova 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 and \$40.6 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 2023 compared to the third quarter of 2022 was mainly due to an increase in medical insurance premiums. The increase in Corporate costs in the first nine months of 2023 compared to the corresponding period of 2022 was mainly due to executive management transition costs, and an increase in medical costs, professional fees and amortization expense of acquired intangible assets related to the CMT acquisition.

INTEREST EXPENSE, NET

Interest expense was \$2.5 million and \$6.4 million in the third quarter and first nine months of 2023, respectively, and \$1.3 million and \$3.1 million in the corresponding periods of 2022. The increase in interest expense in the third quarter and first nine months of 2023 compared to the corresponding periods of 2022 was mainly due to higher average interest rates. The weighted 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.

## INCOME TAX EXPENSE

The third quarter 2023 effective income tax rate was 21.3% compared to 21.5% in the third quarter of 2022. The effective income tax rate in 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.

## CAPITAL RESOURCES AND LIQUIDITY

The Company's overall financial position and liquidity remains strong. Working capital (current assets less current liabilities) increased to \$284.9 million at June 30, 2023 from \$254.5 million at September 30, 2022. Inventories increased by \$30.0 million during this period mainly due to a \$15.4 million increase within the USG segment and a \$14.0 million increase within the Aerospace & Defense 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 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 and higher sales volumes in the A&D and USG segments.

Net cash provided by operating activities was \$29.2 million and \$41.7 million in the first nine months of 2023 and 2022, respectively. The decrease in net cash provided by operating activities in the first nine months of 2023 as compared to the first nine months of 2022 was mainly driven by higher working capital requirements, including an increase in inventories and accounts receivable, and higher tax and interest payments.

Capital expenditures were \$17.0 million and \$25.9 million in the first nine months of 2023 and 2022, 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 in the first quarter of 2022. In addition, the Company incurred expenditures for capitalized software of \$9.3 million and \$9.4 million in the first nine months of 2023 and 2022, respectively.

### *Acquisition*

On February 1, 2023, the Company acquired CMT Materials, LLC and its affiliate Engineered Syntactic Systems, LLC (CMT) for a purchase price of approximately \$18 million. CMT, based in Attleboro, Massachusetts, is a leading supplier of syntactic materials for buoyancy and specialty applications. Since the date of acquisition, the operating results for the CMT business have been included as part of Globe within the A&D segment.

### *Credit Facility*

At June 30, 2023, the Company had approximately \$345 million available to borrow under its bank credit facility, a \$250 million increase option, and \$56.1 million cash on hand. At June 30, 2023, the Company had \$148 million of outstanding borrowings under the credit facility in addition to outstanding letters of credit of \$7.4 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 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. Subsequent to June 30, 2023, a quarterly dividend of \$0.08 per share, totaling \$2.1 million, was paid on July 19, 2023 to stockholders of record as of July 5, 2023.

## **CRITICAL ACCOUNTING ESTIMATES**

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.

## **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 include, but are not necessarily limited to, statements about: any potential effects of the COVID-19 pandemic; 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 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, and the following: the continuing impact of the COVID-19 pandemic including the impacts of known 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; the timing and content of future contract awards or customer orders; the 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

insolvencies; competition; intellectual property rights; technical difficulties; the availability of selected acquisitions; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs and availability of certain raw materials; inflationary pressures on the Company's costs of labor, materials, components and supplies; labor disputes; changes in U.S. tax laws and regulations; other 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 of recently acquired businesses.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign currency exchange rates. The Company is exposed to market risk related to changes in interest rates and selectively uses derivative financial instruments, including forward contracts and swaps, to manage these risks. 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.

#### 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.

##### ITEM 5. OTHER INFORMATION

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

ITEM 6. EXHIBITS

| Exhibit Number | Description   | Document Location  |
|----------------|---|--|
| 3.1(a)         | <a href="#">Restated Articles of Incorporation</a>  | Exhibit 3(a) to the Company's Form 10-K for the fiscal year ended September 30, 1999 |
| 3.1(b)         | <a href="#">Amended Certificate of Designation, Preferences and Rights of Series A Participating Cumulative Preferred Stock of the Registrant</a>   | Exhibit 4(e) to the Company's Form 10-Q for the fiscal quarter ended March 31, 2000  |
| 3.1(c)         | <a href="#">Articles of Merger effective July 10, 2000</a>  | Exhibit 3(c) to the Company's Form 10-Q for the fiscal quarter ended June 30, 2000   |
| 3.1(d)         | <a href="#">Amendment of Articles of Incorporation effective February 5, 2018</a>   | Exhibit 3.1 to the Company's Form 8-K filed February 7, 2018                         |
| 3.2            | <a href="#">Bylaws</a>  | Exhibit 3.1 to the Company's Form 8-K filed November 22, 2022                        |
| 4.2            | <a href="#">Amendment No. 2 dated as of March 13, 2023 to 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</a> | Exhibit 10.1 to the Company's Form 10-Q filed May 10, 2023                           |
| 10.1           | <a href="#">Form of Restricted Stock Unit (RSU) Awards to Executive Officers under 2018 Omnibus Incentive Plan (2023)</a>   | Filed herewith   |
| 31.1           | <a href="#">Certification of Chief Executive Officer</a>  | Filed herewith   |
| 31.2           | <a href="#">Certification of Chief Financial Officer</a>  | Filed herewith   |
| 32             | <a href="#">Certification of Chief Executive Officer and Chief Financial Officer</a>  | 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”.

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

RESTRICTED SHARE UNIT  
AWARD AGREEMENT

**To:** ("you")

**From:** Human Resources and Compensation Committee of the Board of Directors (the "Committee")  
ESCO Technologies Inc. (the "Company") 2018 Omnibus Incentive Plan ("Plan") – Fiscal 20\_\_ Restricted Share Unit Award  
**Subject:** ("Award")

**1. Award.** Effective \_\_\_, 20\_\_ (the "Award Date"), the Committee has approved the award to you of \_\_\_\_ Restricted Share Units (the "RSUs") pursuant to the Plan, representing the right to receive \_\_\_\_ shares 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 and in the Plan, a copy of which has been delivered to you and is available from the Company's Human Resources Department upon request.

**2. Payout Terms.**

(a) The Award and any receipt of Shares shall become vested in equal one-third increments on each Vesting Date as defined in section 2(b), 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, 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 will be converted into the right to receive one Share, and such Shares (after deducting sufficient whole Shares to satisfy the Company's tax withholding obligations) will be issued to you or your brokerage account as of the next trading day 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 and you are and have been continuously employed by the Company or 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 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 are converted to units of the Acquirer's common stock at a total value equal to the total value of the RSUs ("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 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 common stock and unless earlier distributed such 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 ("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 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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(B) Any unvested RSUs granted to you pursuant to this Award Agreement shall not be replaced if the Acquirer 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 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 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 will be converted into the right to receive cash in an amount equal to the number of unvested RSUs 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) 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) Notwithstanding the foregoing provisions of this section 2(c), 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)(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) 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 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.

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

(i) If on or before a 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 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

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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) 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 (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) 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 and which is demonstrably injurious to the Company or 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.

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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. 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 to and including the 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. The amount accrued with respect to each vested 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.

**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 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) 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).

**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

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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  
Date Signed: \_\_\_\_\_

Participant (*sign by typing your name*)  
Date Signed: \_\_\_\_\_

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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

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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

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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") on Form 10-Q for the period ended June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Bryan H. Sayler, 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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