

ESCO TECHNOLOGIES INC
Form 10-Q
May 08, 2014

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 MARCH 31, 2014

OR

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

COMMISSION FILE NUMBER 1-10596

ESCO TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| MISSOURI (State or other jurisdiction of incorporation or organization) | 43-1554045 (I.R.S. Employer Identification No.) |
| 9900A CLAYTON ROAD ST. LOUIS, MISSOURI (Address of principal executive offices) | 63124-1186 (Zip Code) |

(314) 213-7200

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(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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

(Do not check if a smaller reporting company)

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

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

| Class | <u>Outstanding at April 30, 2014</u> |
|---|--------------------------------------|
| Common stock, \$.01 par value per share | 26,550,905 shares |

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share amounts)

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2014 | 2013 |
| Net sales | \$ 124,762 | 118,039 |
| Costs and expenses: | | |
| Cost of sales | 77,436 | 72,888 |
| Selling, general and administrative expenses | 31,818 | 31,577 |
| Amortization of intangible assets | 1,679 | 1,500 |
| Interest expense, net | 654 | 636 |
| Other expenses (income), net | (39) | 901 |
| Total costs and expenses | 111,548 | 107,502 |
| Earnings before income taxes | 13,214 | 10,537 |
| Income tax expense | 3,950 | 5,014 |
| Net earnings from continuing operations | 9,264 | 5,523 |
| Earnings (loss) from discontinued operations, net of tax expense (benefit) of \$4,407 and \$(3,028), respectively | 7,501 | (3,964) |
| Loss on sale of discontinued operations, net of tax benefit of \$9,499 | (50,442) | - |
| Net loss from discontinued operations | (42,941) | (3,964) |
| Net (loss) earnings | \$(33,677) | 1,559 |
| Earnings (loss) per share: | | |
| Basic - Continuing operations | \$0.35 | 0.21 |
| - Discontinued operations | (1.62) | (0.15) |
| - Net (loss) earnings | \$(1.27) | 0.06 |
| Diluted - Continuing operations | \$0.35 | 0.21 |

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| | | | | |
|---------------------------|---------|---|-------|---|
| - Discontinued operations | (1.61 |) | (0.15 |) |
| - Net (loss) earnings | \$(1.26 |) | 0.06 | |

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share amounts)

| | Six Months Ended March 31, | |
|---|-------------------------------|----------|
| | 2014 | 2013 |
| Net sales | \$249,212 | 228,557 |
| Costs and expenses: | | |
| Cost of sales | 151,717 | 139,645 |
| Selling, general and administrative expenses | 65,690 | 65,254 |
| Amortization of intangible assets | 3,365 | 3,035 |
| Interest expense, net | 1,346 | 1,219 |
| Other expenses (income), net | 140 | 847 |
| Total costs and expenses | 222,258 | 210,000 |
| Earnings before income taxes | 26,954 | 18,557 |
| Income tax expense | 8,858 | 7,691 |
| Net earnings from continuing operations | 18,096 | 10,866 |
| Earnings (loss) from discontinued operations, net of tax expense (benefit) of \$5,713 and \$(5,654), respectively | 9,858 | (9,061) |
| Loss on sale of discontinued operations, net of tax benefit of \$9,499 | (50,442) | - |
| Net loss from discontinued operations | (40,584) | (9,061) |
| Net (loss) earnings | \$(22,488) | 1,805 |
| Earnings (loss) per share: | | |
| Basic - Continuing operations | \$0.68 | 0.41 |
| - Discontinued operations | (1.53) | (0.34) |
| - Net (loss) earnings | \$(0.85) | 0.07 |
| Diluted - Continuing operations | \$0.68 | 0.41 |
| - Discontinued operations | (1.52) | (0.34) |
| - Net (loss) earnings | \$(0.84) | 0.07 |

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Dollars in thousands)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|----------|-------------------------------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| Net (loss) earnings | \$ (33,677) | 1,559 | (22,488) | 1,805 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | 425 | (1,786) | 999 | (811) |
| Amortization of prior service costs and actuarial losses | - | - | - | (109) |
| Total other comprehensive income (loss), net of tax | 425 | (1,786) | 999 | (920) |
| Comprehensive (loss) income | \$ (33,252) | (227) | (21,489) | 885 |

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)

| | March 31, 2014 | September 30, 2013 |
|--|----------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$36,362 | 42,850 |
| Accounts receivable, net | 91,668 | 91,980 |
| Costs and estimated earnings on long-term contracts, less progress billings of \$21,188 and \$30,887, respectively | 16,765 | 20,717 |
| Inventories | 92,481 | 90,228 |
| Current portion of deferred tax assets | 16,447 | 23,349 |
| Other current assets | 23,270 | 15,930 |
| Assets held for sale - current | - | 108,867 |
| Total current assets | 276,993 | 393,921 |
| Property, plant and equipment, net of accumulated depreciation of \$66,660 and \$64,332, respectively | 74,656 | 75,536 |
| Intangible assets, net of accumulated amortization of \$37,307 and \$33,952, respectively | 181,096 | 180,217 |
| Goodwill | 283,420 | 282,949 |
| Other assets | 9,211 | 9,469 |
| Assets held for sale - other | - | 150,236 |
| Total assets | \$825,376 | 1,092,328 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$40,000 | 50,000 |
| Accounts payable | 32,092 | 38,537 |
| Advance payments on long-term contracts, less costs incurred of \$35,153 and \$23,853, respectively | 16,650 | 17,543 |
| Accrued salaries | 17,887 | 21,730 |
| Current portion of deferred revenue | 16,910 | 17,508 |
| Accrued other expenses | 28,490 | 21,453 |
| Liabilities held for sale - current | - | 63,585 |
| Total current liabilities | 152,029 | 230,356 |
| Pension obligations | 18,498 | 19,089 |
| Deferred tax liabilities | 75,861 | 99,795 |
| Other liabilities | 2,662 | 3,348 |
| Long-term debt | - | 122,000 |
| Liabilities held for sale - other | - | 16,026 |

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| | | |
|--|-----------|-----------|
| Total liabilities | 249,050 | 490,614 |
| 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 30,194,146 and 30,147,504 shares, respectively | 302 | 301 |
| Additional paid-in capital | 284,794 | 284,565 |
| Retained earnings | 380,779 | 407,512 |
| Accumulated other comprehensive loss, net of tax | (15,658) | (16,656) |
| | 650,217 | 675,722 |
| Less treasury stock, at cost: 3,700,207 and 3,707,407 common shares, respectively | (73,891) | (74,008) |
| Total shareholders' equity | 576,326 | 601,714 |
| Total liabilities and shareholders' equity | \$825,376 | 1,092,328 |

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

| | Six Months Ended March 31, | |
|--|-------------------------------|----------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net (loss) earnings | \$(22,488) | 1,805 |
| Adjustments to reconcile net (loss) earnings to net cash provided by operating activities: | | |
| Net loss from discontinued operations, net of tax | 40,584 | 9,061 |
| Depreciation and amortization | 8,113 | 7,640 |
| Stock compensation expense | 2,581 | 2,272 |
| Changes in current assets and liabilities | (9,394) | (35,187) |
| Effect of deferred taxes | 1,061 | 3,722 |
| Change in deferred revenue and costs, net | (677) | 409 |
| Pension contributions | (1,120) | (1,755) |
| Change in uncertain tax positions | (701) | 243 |
| Other | (1,241) | 10 |
| Net cash provided (used) by operating activities – continuing operations | 16,718 | (11,780) |
| Net cash (used) provided by operating activities - discontinued operations | (1,629) | 13,844 |
| Net cash provided by operating activities | 15,089 | 2,064 |
| Cash flows from investing activities: | | |
| Acquisition of businesses, net of cash acquired | - | (3,247) |
| Additions to capitalized software | (4,044) | (3,776) |
| Capital expenditures | (5,799) | (7,605) |
| Net cash used by investing activities – continuing operations | (9,843) | (14,628) |
| Net cash provided (used) by investing activities – discontinued operations | 123,512 | (31,401) |
| Net cash provided (used) by investing activities | 113,669 | (46,029) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 33,000 | 77,698 |
| Principal payments on long-term debt | (165,000) | (15,000) |
| Dividends paid | (4,245) | (4,244) |
| Purchases of common stock into treasury | - | (9,703) |
| Proceeds from exercise of stock options | - | 1,739 |
| Other | - | (49) |
| Net cash (used) provided by financing activities | (136,245) | 50,441 |
| Effect of exchange rate changes on cash and cash equivalents | 999 | (811) |
| Net (decrease) increase in cash and cash equivalents | (6,488) | 5,665 |
| Cash and cash equivalents, beginning of period | 42,850 | 30,215 |

| | | |
|--|----------|--------|
| Cash and cash equivalents, end of period | \$36,362 | 35,880 |
|--|----------|--------|

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements, in the opinion of management, include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required for annual financial statements by accounting principles generally accepted in the United States of America (GAAP). For further information, refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013. Certain 2013 amounts have been reclassified to conform with the 2014 presentation.

The Company's business is typically not impacted by seasonality; however, the results for the three and six-month periods ended March 31, 2014 are not necessarily indicative of the results for the entire 2014 fiscal year. References to the second quarters of 2014 and 2013 represent the fiscal quarters ended March 31, 2014 and 2013, respectively.

In preparing the financial statements, the Company uses estimates and assumptions that may affect reported amounts and disclosures. The Company regularly evaluates the estimates and assumptions related to the allowance for doubtful trade receivables, inventory obsolescence, warranty reserves, value of equity-based awards, goodwill and purchased intangible asset valuations, asset impairments, employee benefit plan liabilities, income tax liabilities and assets and related valuation allowances, uncertain tax positions, and claims, litigation and other loss contingencies. Actual results could differ from those estimates.

2. ACLARA DIVESTITURE

On March 28, 2014, the Company completed the sale of Aclara Technologies LLC (Aclara) to an affiliate of Sun Capital Partners, Inc. The divestiture generated approximately \$132 million of gross cash proceeds at closing. In addition, the Company expects to receive an estimated working capital adjustment of approximately \$5 million and an additional \$10 million related to specific Aclara receivables retained by ESCO (in addition to approximately \$10 million that was received prior to closing). These receivables are included in Other Current Assets on the Company's Consolidated Balance Sheet as of March 31, 2014 and are expected to be collected prior to September 30, 2014. Aclara is a supplier of special purpose fixed-network communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. Aclara is reflected as discontinued operations and/or assets/liabilities held for sale in the financial statements and related notes for all periods presented.

Aclara's pretax earnings (loss) recorded in discontinued operations were \$11.9 million and \$15.6 million for the three and six-month periods ended March 31, 2014 compared to \$(7.0) million and \$(14.7) million for the respective prior year periods. Aclara's net sales were \$77.7 million and \$129.6 million for the three and six-month periods ended March 31, 2014 compared to \$48.2 million and \$82.9 million for the respective prior year periods. In addition, the Company recorded a \$50.4 million after-tax loss on the sale of Aclara in the second quarter of 2014. Aclara's operations were included within the Company's USG segment prior to the classification as discontinued operations.

The major classes of Aclara assets and liabilities held for sale included in the Consolidated Balance Sheets at September 30, 2013 are shown below (in millions).

| | September 30, 2013 |
|--|--------------------|
| Assets: | |
| Accounts receivable, net | \$ 55.5 |
| Inventories | 34.9 |
| Other current assets | 18.5 |
| Current assets | 108.9 |
| Net property, plant & equipment | 14.5 |
| Intangible assets, net | 66.0 |
| Goodwill | 57.9 |
| Other assets | 11.8 |
| Total assets | \$ 259.1 |
| Liabilities: | |
| Accounts payable | \$ 22.2 |
| Accrued expenses and other current liabilities | 41.4 |
| Current liabilities | 63.6 |
| Other liabilities | 16.0 |
| Total liabilities | \$ 79.6 |

3. EARNINGS PER SHARE (EPS)

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|--------|-------------------------------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| Weighted Average Shares Outstanding - Basic | 26,493 | 26,417 | 26,488 | 26,460 |

| | | | | |
|--|--------|--------|--------|--------|
| Dilutive Options and Restricted Shares | 220 | 328 | 261 | 303 |
| Adjusted Shares - Diluted | 26,713 | 26,745 | 26,749 | 26,763 |

Options to purchase 124,654 shares of common stock at prices ranging from \$35.69 - \$45.20 were outstanding during the three-month period ended March 31, 2013, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares. Approximately 186,000 and 192,000 restricted shares were excluded from the computation of diluted EPS for the three-month periods ended March 31, 2014 and 2013, respectively, based upon the application of the treasury stock method.

4. SHARE-BASED COMPENSATION

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

Stock Option Plans

The fair value of each option award is estimated as of the date of grant using the Black-Scholes option pricing model. Expected volatility is based on historical volatility of the Company's stock calculated over the expected term of the option. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the date of grant. The expected dividend yield is based on historical dividend rates. There were no stock option grants during the first six months of fiscal 2014. Pretax compensation expense related to stock option awards was less than \$0.1 million for the three and six-month periods ended March 31, 2014 and 2013, respectively.

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

| | Shares | Weighted Average Price | Aggregate Intrinsic Value (in millions) | Weighted Average Remaining Contractual Life |
|--------------------------------|----------|------------------------------|--|---|
| Outstanding at October 1, 2013 | 67,350 | \$ 37.39 | | |
| Granted | — | \$ — | | |
| Exercised | — | \$ — | | |
| Cancelled / Expired | (65,350) | \$ 37.54 | | |
| Outstanding at March 31, 2014 | 2,000 | \$ 32.55 | \$ 0.0 | .08 |
| Exercisable at March 31, 2014 | 2,000 | \$ 32.55 | \$ 0.0 | |

Performance-Accelerated Restricted Share Awards

Pretax compensation expense related to the restricted share awards was \$1.2 million and \$2.3 million for the three and six-month periods ended March 31, 2014, respectively, and \$1.0 million and \$1.9 million for the respective prior year periods. There were 404,692 non-vested shares outstanding as of March 31, 2014.

Non-Employee Directors Plan

Pretax compensation expense related to the non-employee director grants was \$0.1 million and \$0.2 million for the three and six-month periods ended March 31, 2014, respectively, and \$0.2 million and \$0.3 million for the respective prior year periods.

The total share-based compensation cost that has been recognized in results of continuing operations and included within selling, general and administrative expenses (SG&A) was \$1.3 million and \$2.6 million for the three and six-month periods ended March 31, 2014, respectively, and \$1.2 million and \$2.3 million for the three and six-month periods ended March 31, 2013. The total income tax benefit recognized in results of operations for share-based compensation arrangements was \$0.2 and \$0.7 million for the three and six-month periods ended March 31, 2014 and \$0.1 million and \$0.2 million for the three and six-month periods ended March 31, 2013. As of March 31, 2014, there was \$6.5 million of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a remaining weighted-average period of 1.7 years.

5. INVENTORIES

Inventories from continuing operations consist of the following:

| (In thousands) | March 31, 2014 | September 30, 2013 |
|--|-------------------|-----------------------|
| Finished goods | \$ 17,950 | 20,925 |
| Work in process, including long-term contracts | 36,865 | 30,884 |
| Raw materials | 37,666 | 38,419 |
| Total inventories | \$ 92,481 | 90,228 |

6. BUSINESS SEGMENT INFORMATION

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company has three reporting segments: Filtration/Fluid Flow (Filtration), RF Shielding and Test (Test), and Utility Solutions Group (USG). The Filtration segment's operations consist of PTI Technologies Inc. (PTI), VACCO Industries (VACCO), Crissair, Inc. (Crissair) and Thermoform Engineered Quality LLC (TEQ). The companies within this segment primarily design and manufacture specialty filtration products, including hydraulic filter elements used in commercial aerospace applications, unique filter mechanisms used in micro-propulsion devices for satellites and custom designed filters for manned and unmanned aircraft. Test segment operations consist of ETS-Lindgren Inc. (ETS-Lindgren). ETS-Lindgren is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy. The USG segment's operations consist of Doble Engineering Company (Doble). Doble provides high-end, intelligent diagnostic test solutions for the electric power delivery industry and is a leading supplier of partial discharge testing instruments used to assess the integrity of high voltage power delivery equipment.

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

| (In thousands) | Three Months Ended | | Six Months Ended | |
|------------------------------|--------------------|----------|-------------------|-----------|
| | March 31, 2014 | 2013 | March 31, 2014 | 2013 |
| NET SALES | | | | |
| Filtration | \$ 58,397 | 53,626 | 113,875 | 99,977 |
| Test | 41,025 | 39,821 | 80,503 | 76,116 |
| USG | 25,340 | 24,592 | 54,834 | 52,464 |
| Consolidated totals | \$ 124,762 | 118,039 | 249,212 | 228,557 |
| EBIT | | | | |
| Filtration | \$ 10,100 | 10,894 | 19,584 | 19,695 |
| Test | 3,533 | 2,559 | 7,108 | 3,078 |
| USG | 5,518 | 4,149 | 13,165 | 9,603 |
| Corporate (loss) | (5,283) | (6,429) | (11,557) | (12,600) |
| Consolidated EBIT | 13,868 | 11,173 | 28,300 | 19,776 |
| Less: Interest expense | (654) | (636) | (1,346) | (1,219) |
| Earnings before income taxes | \$ 13,214 | 10,537 | 26,954 | 18,557 |

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.

The Company believes that the presentation of EBIT provides important supplemental information to investors by facilitating 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.

7. DEBT

The Company’s debt is summarized as follows:

| (In thousands) | March 31, 2014 | September 30, 2013 |
|---|-------------------|-----------------------|
| Total borrowings | \$ 40,000 | 172,000 |
| Short-term borrowings and current portion of long-term debt | (40,000) | (50,000) |
| Total long-term debt, less current portion | \$ - | 122,000 |

On May 14, 2012, the Company entered into a \$450 million five-year revolving credit facility with JPMorgan Chase Bank, N.A., as administrative agent, PNC Bank, N.A., as syndication agent, and eight other participating lenders (the "Credit Facility"). Through a credit facility expansion option, the Company may elect to increase the size of the credit facility by entering into incremental term loans, in any agreed currency, at a minimum of \$25 million each up to a maximum of \$250 million aggregate.

At March 31, 2014, the Company had approximately \$402 million available to borrow under the credit facility, and a \$250 million increase option, in addition to \$36.4 million cash on hand. At March 31, 2014, the Company had \$40 million of outstanding borrowings under the credit facility in addition to outstanding letters of credit of \$8.4 million. 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.

The credit facility requires, as determined by certain financial ratios, a facility fee ranging from 17.5 to 35.0 basis points per year on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the London Interbank Offered Rate (LIBOR) or based on the prime rate, at the Company's election. The facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility also include a leverage ratio and an interest coverage ratio. At March 31, 2014, the Company was in compliance with all debt covenants.

8. INCOME TAX EXPENSE

The second quarter 2014 effective income tax rate from continuing operations was 29.9% compared to 47.6% in the second quarter of 2013. The effective income tax rate in the first six months of 2014 was 32.9% compared to 41.4% in the prior year period. During the second quarter of 2014, the IRS concluded its audit of the 2011 tax year and had no adjustments. As a result of the audit conclusions, the Company changed its judgment about the measurement of certain of its unrecognized tax benefits for the years 2011 – 2014, decreasing unrecognized tax benefits by \$0.7 million. This release of unrecognized tax benefit accruals decreased the second quarter and year-to-date effective tax rate by 4.9% and 2.4%, respectively. The income tax expense in the second quarter and first six months of 2014 was also favorably impacted by the decrease in the applicable state rate for certain deferred tax liabilities reducing the second quarter and year-to-date effective tax rate by 1.7% and 0.8%, respectively.

The income tax expense in the second quarter and first six months of 2013 was unfavorably impacted by an adjustment to the foreign valuation allowance increasing the second quarter and year-to-date effective tax rate by 16.9% and 9.6%, respectively. The income tax expense in the second quarter and first six months of 2013 was favorably impacted by the extension of the research credit as a result of the American Taxpayer Relief Act of 2012 reducing the second quarter and year-to-date effective tax rate by 5.9% and 3.4%, respectively.

The Company estimates the fiscal 2014 effective tax rate from continuing operations will be approximately 35%. The Company anticipates a \$1.1 million reduction in the amount of unrecognized tax benefits in the next twelve months as a result of a lapse of the applicable statute of limitations.

9. RETIREMENT PLANS

A summary of net periodic benefit expense for the Company's defined benefit plans for the three and six-month periods ended March 31, 2014 and 2013 is shown in the following table. Net periodic benefit cost for each period presented is comprised of the following:

| (In thousands) | Three Months Ended | | Six Months Ended | |
|---------------------------|--------------------|----------|-------------------|----------|
| | March 31, 2014 | 2013 | March 31, 2014 | 2013 |
| Defined benefit plans | | | | |
| Interest cost | \$ 1,002 | 915 | 2,004 | 1,829 |
| Expected return on assets | (1,104) | (1,075) | (2,208) | (2,149) |
| Amortization of: | | | | |
| Prior service cost | 3 | 3 | 6 | 6 |
| Actuarial loss | 413 | 492 | 826 | 984 |
| Net periodic benefit cost | \$ 314 | 335 | 628 | 670 |

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

RESULTS OF OPERATIONS

The following discussion refers to the Company's results from continuing operations, except where noted. On March 28, 2014, the Company completed the sale of Aclara Technologies LLC (Aclara) to an affiliate of Sun Capital Partners, Inc. The divestiture generated approximately \$132 million of gross cash proceeds at closing. In addition, the Company expects to receive an estimated working capital adjustment of approximately \$5 million and an additional \$10 million related to specific Aclara receivables retained by ESCO (in addition to approximately \$10 million that was received prior to closing). These receivables are included in Other Current Assets on the Company's Consolidated Balance Sheet as of March 31, 2014 and are expected to be collected prior to September 30, 2014. Aclara is reflected as discontinued operations and/or assets/liabilities held for sale in the financial statements and related notes for all periods presented.

Aclara's pretax earnings (loss) recorded in discontinued operations were \$11.9 million and \$15.6 million for the three and six-month periods ended March 31, 2014 compared to \$(7.0) million and \$(14.7) million for the respective prior year periods. Aclara's net sales were \$77.7 million and \$129.6 million for the three and six-month periods ended March 31, 2014 compared to \$48.2 million and \$82.9 million for the respective prior year periods. In addition, the Company recorded a \$50.4 million after-tax loss on the sale of Aclara in the second quarter of 2014. Aclara's operations were included within the Company's USG segment prior to the classification as discontinued operations.

References to the second quarters of 2014 and 2013 represent the fiscal quarters ended March 31, 2014 and 2013, respectively.

OVERVIEW

In the second quarter of 2014, sales, net earnings and diluted earnings per share from continuing operations were \$124.8 million, \$9.3 million and \$0.35 per share, respectively, compared to \$118.0 million, \$5.5 million and \$0.21 per share in the second quarter of 2013. In the first six months of 2014, sales, net earnings and diluted earnings per share from continuing operations were \$249.2 million, \$18.1 million and \$0.68 per share, respectively, compared to \$228.6 million, \$10.9 million and \$0.41 per share in the first six months of 2013.

NET SALES

Net sales increased \$6.7 million, or 5.8%, to \$124.8 million in the second quarter of 2014 from \$118.0 million in the second quarter of 2013. Net sales increased \$20.6 million, or 9.1%, to \$249.2 million in the first six months of 2014 from \$228.6 million in the first six months of 2013. The increase in net sales in the second quarter of 2014 as

compared to the prior year second quarter was due to a \$4.8 million increase in the Filtration segment, a \$1.2 million increase in the Test segment, and a \$0.7 million increase in the USG segment.

-Filtration

In the second quarter of 2014, net sales of \$58.4 million were \$4.8 million, or 9.0%, higher than the \$53.6 million in the second quarter of 2013. Net sales increased \$13.9 million, or 13.9%, to \$113.9 million in the first six months of 2014 from \$100.0 million in the first six months of 2013. The sales increase in the second quarter of 2014 compared to the prior year second quarter was due to a \$3.3 million increase in net sales at Crissair, mainly due to the Canyon acquisition and higher aerospace product shipments, and a \$2.9 million increase in net sales at VACCO due to higher shipments of its Space products, partially offset by a \$1.4 million decrease in net sales at PTI driven by lower shipments of aerospace elements. The sales increase in the first six months of 2014 compared to the first six months of 2013 was due to an \$8.7 million increase in net sales at VACCO due to higher shipments of its Space products, and a \$6.2 million increase in net sales at Crissair, mainly due to the Canyon acquisition and higher aerospace product shipments, partially offset by a \$1.0 million decrease in net sales at PTI due to lower shipments of aerospace elements.

-Test

In the second quarter of 2014, net sales of \$41.0 million were \$1.2 million, or 3.0%, higher than the \$39.8 million of net sales recorded in the second quarter of 2013. Net sales increased \$4.4 million, or 5.8%, to \$80.5 million in the first six months of 2014 from \$76.1 million in the first six months of 2013. The sales increase in the second quarter of 2014 compared to the prior year second quarter was due to a \$2.8 million increase in net sales from the segment's U.S. operations resulting from an increase in projects, including a large automotive chamber and projects in the EMP (electro-magnetic pulse) and industrial shielding markets, partially offset by a \$1.2 million decrease in net sales from the segment's Asian operations and a \$0.4 million decrease in net sales from the segment's European operations, both due to timing of projects. The sales increase in the first six months of 2014 compared to the first six months of 2013 was due to a \$10.4 million increase in net sales from the segment's U.S. operations, partially offset by a \$4.0 million decrease in net sales from the segment's Asian operations and a \$2.0 million decrease in net sales from the segment's European operations, both due to timing of projects.

-Utility Solutions Group (USG)

Net sales increased \$0.7 million, or 3.0%, to \$25.3 million in the second quarter of 2014 from \$24.6 million in the second quarter of 2013. Net sales increased \$2.4 million, or 4.5%, to \$54.8 million in the first six months of 2014 from \$52.5 million in the first six months of 2013. The sales increase in the second quarter of 2014 and first six months of 2014 compared to the respective prior year periods was mainly due to higher service revenue at Doble.

ORDERS AND BACKLOG

Backlog from continuing operations was \$272.8 million at March 31, 2014 compared with \$272.1 million at September 30, 2013. The Company received new orders totaling \$136.4 million in the second quarter of 2014 compared to \$118.4 million in the prior year second quarter. Of the new orders received in the second quarter of 2014, \$58.2 million related to Filtration products, \$52.4 million related to Test products, and \$25.8 million related to USG products. Of the new orders received in the second quarter of 2013, \$51.8 million related to Filtration products, \$43.1 million related to Test products, and \$23.5 million related to USG products.

The Company received new orders totaling \$249.9 million in the first six months of 2014 compared to \$247.3 million in the first six months of 2013. Of the new orders received in the first six months of 2014, \$112.3 million related to Filtration products, \$83.4 million related to Test products, and \$54.2 million related to USG products. Of the new orders received in the first six months of 2013, \$109.0 million related to Filtration products, \$85.9 million related to Test products, and \$52.4 million related to USG products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses for the second quarter of 2014 were \$31.8 million (25.5% of net sales), compared with \$31.6 million (26.8% of net sales) for the prior year second quarter. For the first six months of

2014, SG&A expenses were \$65.7 million (26.4% of net sales) compared to \$65.3 million (28.6% of net sales) for the first six months of 2013. The increase in SG&A in the second quarter and first six months of 2014 compared to the respective prior periods was mainly due to the acquisition of Canyon Engineering (in June 2013), and higher engineering costs incurred at PTI related to the recently announced new aerospace platform wins, partially offset by lower SG&A expenses at Doble and Corporate.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets was \$1.7 million and \$3.4 million for the second quarter and first six months of 2014, respectively, compared to \$1.5 million and \$3.0 million for the respective prior year periods. Amortization of intangible assets for the second quarter and first six months of 2014 included \$0.9 million and \$1.7 million, respectively, of amortization of acquired intangible assets related to recent acquisitions, compared to \$0.8 million and \$1.7 million for the respective prior year periods. The amortization of these acquired intangible assets is included in Corporate's operating results; see "EBIT – Corporate". The remaining amortization expenses consist of other identifiable intangible assets (primarily software, patents and licenses).

OTHER (INCOME) EXPENSES, NET

Other income, net, was \$(0.04) million compared to other expenses, net, of \$0.9 million for the second quarters of 2014 and 2013, respectively. The principal component in other expenses (income), net, in the second quarter of 2014 was \$0.3 million of restructuring costs related to the Filtration segment facility consolidation. The principal component in other expenses (income), net, in the second quarter of 2013 was \$1.0 million of restructuring costs within the Test segment as a result of the decision to close the Glendale Heights, Illinois facility. Other expenses, net, were \$0.1 million and \$0.8 million for the first six months of 2014 and 2013, respectively. The principal component in other expenses, net, in the first six months of 2014 was \$0.5 million of restructuring costs related to the Filtration segment facility consolidation. The principal components in other expenses, net, in the first six months of 2013 were \$2.0 million of restructuring costs within the Test segment due to the facility consolidation mentioned above and a (\$0.8) million gain on the sale of machinery and equipment within the Filtration segment.

EBIT

The Company evaluates the performance of its operating segments based on EBIT, and provides EBIT on a consolidated basis, which is a non-GAAP financial measure. Please refer to the discussion of non-GAAP financial measures in Note 6 to the Consolidated Financial Statements, above. EBIT from continuing operations was \$13.9 million (11.1% of net sales) for the second quarter of 2014 and \$11.2 million (9.5% of net sales) for the second quarter of 2013. For the first six months of 2014, EBIT was \$28.3 million (11.4% of net sales) compared with \$19.8 million (8.7% of net sales) for the first six months of 2013.

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

| (In thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|-------------------|----------|
| | March 31, 2014 | 2013 | March 31, 2014 | 2013 |
| Consolidated EBIT | 13,868 | 11,173 | 28,300 | 19,776 |
| Less: Interest expense, net | (654) | (636) | (1,346) | (1,219) |
| Less: Income tax expense | (3,950) | (5,014) | (8,858) | (7,691) |
| Net earnings from continuing operations | \$ 9,264 | 5,523 | 18,096 | 10,866 |

-Filtration

EBIT in the second quarter of 2014 was \$10.1 million (17.3% of net sales) compared to \$10.9 million (20.3% of net sales) in the second quarter of 2013. For the first six months of 2014, EBIT was \$19.6 million (17.2% of net sales) compared to \$19.7 million (19.7% of net sales) in the first six months of 2013. The \$0.8 million decrease in EBIT in the second quarter of 2014 compared to the second quarter of 2013 and the \$0.1 million decrease in EBIT in the first six months of 2014 compared to the first six months of 2013 were driven by a decrease in EBIT margins at PTI due to lower sales volumes and the restructuring charges recorded related to the Crissair facility consolidation. During the second quarter of 2014 and first six months of 2014, the Company recorded \$0.3 million and \$0.5 million, respectively, of restructuring charges related to the Crissair facility consolidation.

-Test

EBIT in the second quarter of 2014 was \$3.5 million (8.6% of net sales) compared to \$2.6 million (6.4% of net sales) in the second quarter of 2013. For the first six months of 2014, EBIT was \$7.1 million (8.8% of net sales) compared to \$3.1 million (4.0% of net sales) in the first six months of 2013. EBIT increased compared to the 2013 second quarter and first six months mainly due to the cost savings achieved as a result of the prior year domestic facility consolidation. Approximately \$3.0 million of restructuring costs were incurred in the first six months of 2013 consisting mainly of a facility lease termination charge, severance and relocation expenses and manufacturing inefficiencies resulting from the disruption.

-Utility Solutions Group

EBIT in the second quarter of 2014 was \$5.5 million (21.8% of net sales) compared to \$4.1 million (16.9% of net sales) in the second quarter of 2013. For the first six months of 2014, EBIT was \$13.2 million (24.0% of net sales) compared to EBIT of \$9.6 million (18.3% of net sales) in the first six months of 2013. The increase in EBIT in the second quarter and first six months of 2014 compared to the corresponding periods of 2013 was primarily due to an increase in sales volumes and a decrease in SG&A expenses (marketing & selling and engineering).

-Corporate

Corporate costs included in EBIT were \$5.3 million and \$11.6 million for the second quarter and first six months of 2014, respectively, compared to \$6.4 million and \$12.6 million for the corresponding periods of 2013. The decrease in Corporate costs in the second quarter and first six months of 2014 compared to the respective prior year periods was mainly due to a decrease in professional fees and acquisition related costs.

INTEREST EXPENSE, NET

Interest expense was \$0.7 million and \$1.3 million for the second quarter and first six months of 2014, respectively, and \$0.6 million and \$1.2 million for the corresponding periods of 2013. There were no significant fluctuations between the periods.

INCOME TAX EXPENSE

The second quarter 2014 effective income tax rate from continuing operations was 29.9% compared to 47.6% for the second quarter of 2013. The effective income tax rate for the first six months of 2014 was 32.9% compared to 41.4% for the first six months of 2013. During the second quarter of 2014, the IRS concluded its audit of the 2011 tax year and had no adjustments. As a result of the audit conclusions, the Company changed its judgment about the measurement of certain of its unrecognized tax benefits for the years 2011 – 2014, decreasing unrecognized tax benefits by \$0.7 million. This release of unrecognized tax benefit accruals decreased the 2014 second quarter and year-to-date effective tax rate by 4.9% and 2.4%, respectively. The income tax expense in the second quarter and first six months of 2014 was also favorably impacted by the decrease in the applicable state rate for certain deferred tax liabilities reducing the second quarter and year-to-date effective tax rate by 1.7% and 0.8%, respectively.

The income tax expense in the second quarter and first six months of 2013 was unfavorably impacted by an adjustment to the foreign valuation allowance increasing the second quarter and year-to-date effective tax rate by 16.9% and 9.6%, respectively. The income tax expense in the second quarter and first six months of 2013 was favorably impacted by the extension of the research credit as a result of the American Taxpayer Relief Act of 2012 reducing the second quarter and year-to-date effective tax rate by 5.9% and 3.4%, respectively.

The Company estimates the fiscal 2014 effective tax rate from continuing operations will be approximately 35%. The Company anticipates a \$1.1 million reduction in the amount of unrecognized tax benefits in the next twelve months as a result of a lapse of the applicable statute of limitations.

The Company's foreign subsidiaries had accumulated unremitted earnings of \$33.4 million and cash of \$29.3 million at March 31, 2014. No deferred taxes have been provided on the accumulated unremitted earnings because these funds are not needed to meet the liquidity requirements of the Company's U.S. operations and it is the Company's intention to reinvest these earnings indefinitely. In the event these foreign entities' earnings were distributed, it is estimated that U.S. taxes, net of available foreign tax credits, of approximately \$6.0 million would be due, which would correspondingly reduce the Company's net earnings. No significant portion of the Company's foreign subsidiaries' earnings was taxed at a very low tax rate.

CAPITAL RESOURCES AND LIQUIDITY

The Company's overall financial position and liquidity remains strong. Working capital (current assets less current liabilities) decreased to \$125.0 million at March 31, 2014 from \$163.6 million at September 30, 2013. The significant driver in the decrease in working capital at March 31, 2014 from September 30, 2013 was the sale of Aclara. Other current assets increased \$7.3 million in the first six months of 2014, mainly due to a \$15.2 million receivable related to the sale of Aclara (specific retained receivables and an estimated working capital adjustment). Other current assets included an \$8.0 million income tax receivable at September 30, 2013. Accounts payable decreased \$6.4 million in the first six months of 2014 due to timing of payments.

Net cash provided (used) by operating activities from continuing operations was \$16.7 million and \$(11.8) million for the first six months of 2014 and 2013, respectively. The increase in the first six months of 2014 was mainly due to lower working capital requirements during the period.

Capital expenditures from continuing operations were \$5.8 million and \$7.6 million in the first six months of 2014 and 2013, respectively. The decrease in the first six months of 2014 was mainly due to the first quarter 2013 purchase of the ETS-Lindgren facility in Minocqua, Wisconsin for approximately \$1.2 million. In addition, the Company incurred expenditures for capitalized software from continuing operations of \$4.0 million and \$3.8 million in the first six months of 2014 and 2013, respectively.

During the first six months of 2014 and 2013, the Company made contributions of \$1.1 million and \$1.8 million respectively, to its defined benefit plans.

Credit facility

At March 31, 2014, the Company had approximately \$402 million available to borrow under its credit facility, a \$250 million increase option, and \$36.4 million cash on hand. At March 31, 2014, the Company had \$40 million of outstanding borrowings under the credit facility in addition to outstanding letters of credit of \$8.4 million. Cash flow from operations and borrowings under the Company's bank credit facility are expected to meet the Company's capital requirements and operational needs for the foreseeable future. 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.

Divestiture

On March 28, 2014, the Company completed the sale of Aclara Technologies LLC (Aclara) to an affiliate of Sun Capital Partners, Inc. The divestiture generated approximately \$132 million of gross cash proceeds at closing. In addition, the Company expects to receive an estimated working capital adjustment of approximately \$5 million and an additional \$10 million related to specific Aclara receivables retained by ESCO (in addition to approximately \$10 million that was received prior to closing). The cash proceeds were used to pay down a significant portion of the Company's outstanding debt under its revolving credit facility. At March 31, 2014, the Company had a net debt position of less than \$4 million (net debt position is defined as total debt less net cash).

Dividends

A dividend of \$0.08 per share was paid on January 17, 2014 to stockholders of record as of January 3, 2014, totaling \$2.1 million. Subsequent to March 31, 2014, the next quarterly dividend of \$0.08 per share, or \$2.1 million, was paid on April 17, 2014 to stockholders of record as of April 3, 2014.

OUTLOOK

On November 11, 2013, the Company announced it had initiated certain restructuring activities with the Filtration segment. The Company expects to incur approximately \$2 million, or \$0.05 per share, of anticipated charges to complete the exit and relocation of Crissair's Palmdale, California operation into the Canyon Engineering facility in Valencia, California in fiscal 2014 (of which \$0.5 million of costs were incurred in the first six months of 2014). These costs, both cash and non-cash, primarily consist of personnel costs, lease termination charges, and move related costs. This move is expected to be completed by September 30, 2014.

Management expects 2014 EPS from Continuing Operations – “As Adjusted” in the range of \$1.50 - \$1.60 per share, which excludes restructuring charges described above, with 2014 EPS from Continuing Operations in the range of \$1.45 to \$1.55 per share.

CRITICAL ACCOUNTING POLICIES

Management has evaluated the accounting policies used in the preparation of the Company's financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by Management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving Management judgments and estimates may be found in the Critical Accounting Policies section of Management's Discussion and Analysis and in Note 1 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

OTHER MATTERS

Contingencies

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

FORWARD LOOKING STATEMENTS

Statements contained in this Form 10-Q regarding future events and the Company's future results that are based on current expectations, estimates, forecasts, projections and 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: future revenue and profits; the amounts and timing of additional monies to be received in connection with the sale of Aclara; 2014 EPS from Continuing Operations – "As Adjusted"; 2014 EPS from Continuing Operations; the adequacy of the Company's credit facility and the Company's ability to increase it; the amount and timing of future cash flows; the outcome of current litigation, claims and charges; continued reinvestment of foreign earnings; and U.S. income tax liabilities in the event that foreign earnings were distributed; future income tax liabilities and effective tax rate; changes in the amount of unrecognized tax benefits; the recognition and timing of costs related to share-based compensation arrangements; estimates or projections made in connection with the Company's accounting policies; the costs and timing of announced restructurings; 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, 2013, and the following: 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 customer orders; termination for convenience of customer contracts or orders; financial exposure in connection with Company guarantees of certain Aclara contracts; the timing and magnitude of future contract awards; weakening of economic conditions in served markets; the success of the Company's competitors; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties; the availability of selected acquisitions; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs of certain raw materials; labor disputes; changes in laws and regulations including but not limited to changes in accounting standards and taxation requirements; costs relating to environmental matters; litigation uncertainty; and the Company's successful execution of internal restructuring plans.

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. All derivative instruments are reported on the balance sheet at fair value. The derivative instruments are designated as a cash flow hedge and the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. There were no outstanding derivative financial instruments as of March 31, 2014. There has been no material change to the Company's market risks since September 30, 2013. Refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013 for further discussion about market risk.

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit
Number

3.1(a) Restated Articles of Incorporation

Incorporated by reference to
Exhibit 3(a) to Form 10-K
for the fiscal year ended

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| | | |
|----------|--|---|
| | | September 30, 1999 (File No. 1-10596) |
| 3.1(b) | Amended Certificate of Designation, Preferences and Rights of Series A Participating Cumulative Preferred Stock of the Registrant | Incorporated by reference to Exhibit 4(e) to Form 10-Q for the fiscal quarter ended March 31, 2000 (File No. 1-10596) |
| 3.1(c) | Articles of Merger effective July 10, 2000 | Incorporated by reference to Exhibit 3(c) to Form 10-Q for the fiscal quarter ended June 30, 2000 (File No. 1-10596) |
| 3.2 | Bylaws | Incorporated by reference to Exhibit 3 to Form 8-K filed May 7, 2014 (File No. 1-10596) |
| 4.1 | Specimen revised Common Stock Certificate | Incorporated by reference to Exhibit 4.1 to Form 10-Q for the fiscal quarter ended March 31, 2010 (File No. 1-10596) |
| 4.2 | Credit Agreement dated as of May 14, 2012 among the Registrant, the Foreign Subsidiary Borrowers from time to time party thereto, the Lenders from time to time party thereto, JP Morgan Chase Bank, N.A. as Administrative Agent, PNC Bank, National Association as Syndication Agent, and SunTrust Bank, Wells Fargo Bank, National Association and Bank of America, N.A. as Co-Documentation Agents | Incorporated by reference to Exhibit 4.1 to Form 8-K dated May 18, 2012 (File No. 1-10596) |
| 10.1 | Securities Purchase Agreement dated March 14, 2014 between ESCO Technologies Holding LLC and Meter Readings Holding LLC | Incorporated by reference to Exhibit 10.1 to Form 8-K dated March 28, 2014 (File No. 1-10596) |
| *31.1 | Certification of Chief Executive Officer relating to Form 10-Q for period ended March 31, 2014 | |
| *31.2 | Certification of Chief Financial Officer relating to Form 10-Q for period ended March 31, 2014 | |
| *32 | Certification of Chief Executive Officer and Chief Financial Officer relating to Form 10-Q for period ended March 31, 2014 | |
| *101.INS | XBRL Instance Document | |
| *101.SCH | XBRL Schema Document | |
| *101.CAL | XBRL Calculation Linkbase Document | |
| *101.DEF | XBRL Definition Linkbase Document | |

*101.LAB XBRL Label Linkbase Document

*101.PRE XBRL Presentation Linkbase Document

* Denotes filed or furnished herewith.

Attached as Exhibit 101 to this report are 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/ Gary E. Muenster

Gary E. Muenster

Executive Vice President and Chief Financial Officer

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

Dated: May 8, 2014