

ESCO TECHNOLOGIES INC
Form 10-Q
May 07, 2010

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, 2010

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

COMMISSION FILE NUMBER 1-10596

ESCO TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

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

9900A CLAYTON ROAD
ST. LOUIS, MISSOURI 63124-1186
(Address of principal executive (Zip Code)
offices)

(314) 213-7200
(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

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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	<input checked="" type="checkbox"/>	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	Outstanding at April 30, 2010
Common stock, \$.01 par value per share	26,446,248 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,	
	2010	2009
Net sales	\$ 129,281	154,156
Costs and expenses:		
Cost of sales	79,399	92,226
Selling, general and administrative expenses	36,809	38,237
Amortization of intangible assets	2,887	4,985
Interest expense, net	755	1,756
Other expenses, net	288	357
Total costs and expenses	120,138	137,561
Earnings before income taxes	9,143	16,595
Income tax expense	3,177	5,990
Net earnings from continuing operations	5,966	10,605
Loss from discontinued operations, net of tax benefit of \$101	-	(177)
Loss on sale from discontinued operations, net of tax benefit of \$905	-	(32)
Net loss from discontinued operations	-	(209)
Net earnings	\$ 5,966	10,396
Earnings per share:		
Basic – Continuing operations	\$0.23	0.41
- Discontinued operations	0.00	(0.01)
- Net earnings	\$0.23	0.40
Diluted – Continuing operations	\$0.22	0.40
- Discontinued operations	0.00	(0.01)
- Net earnings	\$0.22	0.39

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,	
	2010	2009
Net sales	\$241,986	301,513
Costs and expenses:		
Cost of sales	146,835	184,842
Selling, general and administrative expenses	76,017	77,519
Amortization of intangible assets	5,771	9,587
Interest expense, net	2,237	4,374
Other expenses, net	1,311	244
Total costs and expenses	232,171	276,566
Earnings before income taxes	9,815	24,947
Income tax expense	3,412	8,502
Net earnings from continuing operations	6,403	16,445
Loss from discontinued operations, net of tax benefit of \$112	-	(197)
Loss on sale from discontinued operations, net of tax benefit of \$905	-	(32)
Net loss from discontinued operations	-	(229)
Net earnings	\$ 6,403	16,216
Earnings per share:		
Basic – Continuing operations	\$0.24	0.63
- Discontinued operations	0.00	(0.01)
- Net earnings	\$0.24	0.62
Diluted – Continuing operations	\$0.24	0.62
- Discontinued operations	0.00	(0.01)
- Net earnings	\$0.24	0.61

See accompanying notes to consolidated financial statements.

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

	March 31, 2010 (Unaudited)	September 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$22,925	44,630
Accounts receivable, net	94,432	108,620
Costs and estimated earnings on long-term contracts, less progress billings of \$5,103 and \$19,861, respectively	6,378	10,758
Inventories	89,302	82,020
Current portion of deferred tax assets	21,594	20,417
Other current assets	20,068	13,750
Total current assets	254,699	280,195
Property, plant and equipment, net	70,422	69,543
Goodwill	330,326	330,719
Intangible assets, net	219,518	221,600
Other assets	21,887	21,630
Total assets	\$896,852	923,687
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 50,000	50,000
Accounts payable	29,051	47,218
Advance payments on long-term contracts, less costs incurred of \$16,244 and \$17,484, respectively	6,700	2,840
Accrued salaries	17,291	20,465
Current portion of deferred revenue	21,645	20,215
Accrued other expenses	21,839	23,247
Total current liabilities	146,526	163,985
Pension obligations	26,048	27,483
Deferred tax liabilities	78,326	78,471
Other liabilities	5,457	5,941
Long-term debt, less current portion	120,363	130,467
Total liabilities	376,720	406,347
Shareholders' equity:		
Preferred stock, par value \$.01 per share, authorized 10,000,000 shares	-	-
Common stock, par value \$.01 per share, authorized 50,000,000 shares, issued 29,789,234 and 29,771,103 shares, respectively	298	298
Additional paid-in capital	267,878	265,794
Retained earnings	325,066	322,878
Accumulated other comprehensive loss, net of tax	(13,241)	(11,598)
	580,001	577,372
Less treasury stock, at cost: 3,346,986 and 3,357,046 common shares, respectively	(59,869)	(60,032)
Total shareholders' equity	520,132	517,340

Total liabilities and shareholders' equity	\$ 896,852	923,687
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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,	
	2010	2009
Cash flows from operating activities:		
Net earnings	\$6,403	16,216
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net loss from discontinued operations	-	229
Depreciation and amortization	11,157	15,108
Stock compensation expense	1,900	2,097
Changes in current assets and liabilities	(15,158)	(11,413)
Effect of deferred taxes	(1,322)	(1,074)
Pension contributions	(968)	(1,388)
Other	829	146
Net cash provided by operating activities – continuing operations	2,841	19,921
Net loss from discontinued operations, net of tax	-	(229)
Net cash provided by discontinued operations	-	39
Net cash used by operating activities – discontinued operations	-	(190)
Net cash provided by operating activities	2,841	19,731
Cash flows from investing activities:		
Additions to capitalized software	(4,095)	(2,487)
Capital expenditures	(7,074)	(3,116)
Net cash used by investing activities – continuing operations	(11,169)	(5,603)
Proceeds from divestiture of business, net – discontinued operations	-	3,100
Net cash provided by investing activities – discontinued operations	-	3,100
Net cash used by investing activities	(11,169)	(2,503)
Cash flows from financing activities:		
Proceeds from long-term debt	8,000	27,000
Principal payments on long-term debt	(18,104)	(45,146)
Dividends paid	(2,115)	-
Proceeds from exercise of stock options	412	1,164
Other	655	