

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

MEASUREMENT SPECIALTIES INC

Form 10-Q

February 09, 2005

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 DECEMBER 31, 2004

OR

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

COMMISSION FILE NUMBER: 1-11906

MEASUREMENT SPECIALTIES, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEW JERSEY  
-----  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

22-2378738  
-----  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

10 WASHINGTON AVE., FAIRFIELD, NJ 07004-3877  
-----  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(973) 808-3020  
-----  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

710 ROUTE 46 EAST, SUITE 206, FAIRFIELD, NJ 07004-3877  
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST  
REPORT)

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 X No  
-----

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act ).  
Yes X No  
-----

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

classes of common stock, as of the latest practicable date: 13,536,344  
shares of common stock, no par value per share, at February 4, 2005.

PART I.	FINANCIAL INFORMATION. . . . .	.3
ITEM 1.	FINANCIAL STATEMENTS . . . . .	.3
	CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED). . . . .	.3
	CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED). . . . .	.4
	CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED). . . . .	.6
	CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED). . . . .	.7
	NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) . . . . .	.8
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. . . . .	19
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK . . . . .	27
ITEM 4.	CONTROLS AND PROCEDURES. . . . .	28
PART II.	OTHER INFORMATION. . . . .	28
ITEM 1.	LEGAL PROCEEDINGS. . . . .	28
ITEM 6.	EXHIBITS AND REPORTS ON FORM 8-K . . . . .	29
	SIGNATURES. . . . .	31

ITEM 1. FINANCIAL STATEMENTS

MEASUREMENT SPECIALTIES, INC  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

	FOR THE THREE MONTHS ENDED DECEMBER 31,		FOR THE NINE ENDED DECEMBER 31,	
	2004	2003	2004	2003
Net sales	\$ 36,016	\$ 31,869	\$ 100,247	\$ 90,247
Cost of goods sold	20,898	17,823	57,424	50,823
Gross profit	15,118	14,046	42,823	39,424
Operating expenses (income):				
Selling, general and administrative	9,037	8,018	24,785	23,823

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Litigation expense	-	400	-
Non-cash equity based compensation	-	3,046	-
Research and development	919	850	2,576
Customer funded development	(80)	-	(218)
Restructuring costs and other costs	-	545	-
<hr/>			
Total operating expenses	9,876	12,859	27,143
<hr/>			
Operating income	5,242	1,187	15,680
Interest expense, net	148	22	245
Other expense (income)	78	51	144
<hr/>			
Income from continuing operations before income tax	5,016	1,114	15,291
Income tax	1,429	226	4,358
<hr/>			
Income from continuing operations	3,587	888	10,933
Discontinued operations:			
Income from discontinued units	-	-	-
<hr/>			
Net income	\$ 3,587	\$ 888	\$ 10,933
<hr/>			
Income per common share - Basic			
Income from continuing operations	\$ 0.27	\$ 0.07	\$ 0.82
Income from discontinued units	-	-	-
<hr/>			
Net income	\$ 0.27	\$ 0.07	\$ 0.82
<hr/>			
Income per common share - Diluted			
Income from continuing operations	\$ 0.25	\$ 0.06	\$ 0.78
Income from discontinued units	-	-	-
<hr/>			
Net income	\$ 0.25	\$ 0.06	\$ 0.78
<hr/>			
Weighted average shares outstanding - Basic	13,439,320	12,402,445	13,344,886
<hr/>			
Weighted average shares outstanding - Diluted	14,204,853	14,004,490	14,089,032
<hr/>			

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3

MEASUREMENT SPECIALTIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS)  
(UNAUDITED)

	DECEMBER 31, 2004	MARCH 31, 2004
<hr/>		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,480	\$ 19,274

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Accounts receivable, trade, net of allowance for doubtful accounts of \$1,104 and \$327, respectively	19,671	14,010
Inventories, net	21,296	10,170
Deferred income taxes - current	6,728	6,317
Prepaid expenses and other current assets	2,267	3,267
	-----	-----
Total current assets	57,442	53,038
	-----	-----
PROPERTY AND EQUIPMENT, NET	14,254	10,628
	-----	-----
OTHER ASSETS:		
Goodwill	40,998	4,191
Intangibles	5,082	-
Deferred income taxes - long term	5,195	8,486
Other assets	1,846	657
	-----	-----
	53,121	13,334
	-----	-----
Total assets	\$ 124,817	\$ 77,000
	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4

MEASUREMENT SPECIALTIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

	DECEMBER 31, 2004	MARCH 31, 2004
-----		
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of promissory notes payable	\$ 1,000	\$ -
Current portion of deferred acquisition payments	1,400	-
Short-term debt	649	-
Current portion of long-term debt	2,000	-
Accounts payable	15,985	7,919
Accrued compensation	2,751	3,224
Accrued expenses and other current liabilities	4,340	1,886
Accrued litigation expense-Shareholders' Class Action	-	2,800
Accrued litigation expenses-SEC	-	2,100
Deferred gain on sale of assets, current	2,925	2,830
Income taxes payable	787	-
	-----	-----
Total current liabilities	31,837	20,759
OTHER LIABILITIES:		
Deferred gain on sale of assets, net of current portion	1,722	3,914
Promissory notes payable	1,750	-

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Long-term debt, net of current portion	19,914	-
Deferred acquisition payments	4,264	-
Other liabilities	1,210	1,487
	-----	-----
Total liabilities	60,697	26,160
	-----	-----
SHAREHOLDERS' EQUITY		
Serial preferred stock; 221,756 shares authorized; none outstanding		
Common stock, no par; 20,000,000 shares authorized; 13,533,044 and 12,466,950 shares issued and outstanding, respectively	5,502	5,502
Additional paid-in capital	55,106	53,509
Retained earnings (Accumulated deficit)	2,836	(8,097)
Accumulated other comprehensive income (loss)	676	(74)
	-----	-----
Total shareholders' equity	64,120	50,840
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 124,817	\$ 77,000
	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5

MEASUREMENT SPECIALTIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED DECEMBER 31, 2004 AND 2003  
(DOLLARS IN THOUSANDS)  
(UNAUDITED)

	Common stock	Additional paid-in capital	Accumulated Earnings (Deficit)	Other Comprehens Loss
-----				
BALANCE, APRIL 1, 2003	\$ 5,502	\$ 43,197	\$ (29,683)	\$
Net income	-	-	6,386	
Currency translation adjustment	-	-	-	
Comprehensive income				
Warrants issued for non-cash equity based compensation	-	4,954	-	
Proceeds from exercise of stock options	-	440	-	
Tax benefit from stock options	-	90	-	
Proceeds from exercise of stock warrants	-	504	-	
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 2003	\$ 5,502	\$ 49,185	\$ (23,297)	\$
=====				
BALANCE, APRIL 1, 2004	\$ 5,502	\$ 53,509	\$ (8,097)	\$
Net income	-	-	10,933	
Currency translation adjustment	-	-	-	
Comprehensive income				
Issuance of common stock for acquisition of				

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Humirel S.A.	-	476	-
Proceeds from exercise of stock options	-	1,055	-
Tax benefit from stock options	-	66	-
BALANCE, DECEMBER 31, 2004	\$ 5,502	\$ 55,106	\$ 2,836

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6

MEASUREMENT SPECIALTIES, INC  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(DOLLARS IN THOUSANDS)  
(UNAUDITED)

	FOR THE NINE MONTHS ENDED	
	DECEMBER 31, 2004	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$	10,93
Adjustments to reconcile net income to net cash provided by (used in) operating activities income:		
Depreciation and amortization		2,23
Assets written-off		11
Deferred rent		
Deferred taxes		68
Amortization deferred gain		(2,09)
Provision for bad debt		48
Provision for obsolete inventory		42
Non-cash equity based compensation		
Tax benefit from stock options		6
Net changes in operating assets and liabilities:		
Accounts receivable, trade		(2,01)
Inventories		(5,34)
Deferred income tax asset		1,77
Prepaid expenses and other current assets		2,94
Other assets		(1,43)
Accounts payable		2,20
Accrued litigation costs		(2,10)
Accrued expenses and other liabilities		52
Net cash (used in) provided by operating activities		9,41
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment		(3,08)
Purchase of acquisitions, net of cash acquired		(39,08)
Net cash (used in) provided by investing activities		(42,17)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under short-term debt and promissory notes payable, net		(15
Repayments of debt		20,00
Long-term debt proceeds		

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Proceeds from exercise of options and warrants		1,05
Net cash used in financing activities		20,89
NET CHANGE IN CASH AND CASH EQUIVALENTS, CONTINUING OPERATIONS		(11,85
Effect of exchange rates		6
Cash and cash equivalents, beginning of period		19,27
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	7,48
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non cash:		
Notes from acquisitions	\$	3,00
Deferred acquisition payments	\$	4,26
Issuance of stock for Humirel SA Acquisition	\$	47
Cash paid during the period for:		
Interest	\$	21
Income taxes	\$	81

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7

MEASUREMENT SPECIALTIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2004

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

1. BASIS OF PRESENTATIONS:

Interim financial statements:

These interim financial statements and notes to condensed consolidated financial statements were prepared pursuant to accounting principles for interim financial information, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Rules and Regulations of the Securities and Exchange Commission, and have not been audited. Accordingly, while they conform to the measurement and classification provisions of accounting principles generally accepted in the United States, they do not include the footnote information required by accounting principles generally accepted in the United States for annual financial statements. Preparation of these financial statements requires management to make estimates and assumptions, which affect the amounts reported. Actual results could differ from those estimates. In the opinion of management, these financial statements include all normal and accrual adjustments necessary for a fair presentation. Reference is made to the annual financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004. Operating results for the three months and nine months ended December 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2005. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our annual report on Form 10-K for the fiscal year ended March 31, 2004.

Description of business:

Measurement Specialties, Inc. ("MSI" or the "Company") is a designer and manufacturer of sensors and sensor-based consumer products. The Company produces a wide variety of sensors that use advanced technologies to measure precise ranges of physical characteristics including pressure, motion, force,

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

displacement, tilt/angle, flow, distance and humidity. The Company has two segments, a Sensor business and a Consumer Products business.

The Sensor segment designs and manufactures sensors for original equipment manufacturers. These sensors are used for automotive, medical, consumer, military/aerospace and industrial applications. The Company's sensor products include pressure and electromagnetic displacement sensors, piezoelectric polymer film sensors, custom microstructures, load cells, accelerometers, optical sensors and humidity sensors.

The Consumer Products segment designs and manufactures sensor-based consumer products that are sold to retailers and distributors in both the United States and Europe. Consumer products include bathroom and kitchen scales, tire pressure gauges and distance estimators.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Principles of consolidation:

The consolidated financial statements include the accounts of Measurement Specialties, Inc. and its wholly-owned subsidiaries (the "Subsidiaries").

In the quarter ended June 30, 2004, the Company reorganized its Asian operations under an offshore holding company, Kenabell Holding Limited, a British Virgin Island Company ("Kenabell Holding BVI"). As part of the reorganization, a new entity was formed under Kenabell Holding BVI in the Cayman Islands, Measurement Limited ("ML Cayman"). A significant portion of the Consumer business in Asia was transferred into ML Cayman during the quarter ended June 30, 2004. These holding companies were formed as part of a foreign tax planning restructuring, and to facilitate any potential future sale of assets of our Consumer Products business.

MSI Sensors (Asia) (formerly named Measurement Limited, organized in Hong Kong) owns the shares of MSI Sensors (China) Ltd. (formerly named Jingliang Electronics (Shenzhen) Co. Ltd, organized in the peoples Republic of China). Kenabell Holding BVI owns the shares of MSI Sensors (Asia) and ML Cayman. All the companies are included in the consolidated financial statements of the group.

In the quarter ended December 31, 2004, as part of a foreign tax planning restructuring, the Company reorganized its European operations under an offshore holding company, named Acalon, based in Cyprus, as well as establishing Measurement Specialties Foreign Holdings Corporation, a Delaware corporation, which owns Kenabell Holdings BVI, Entran SA and Humirel SA

IC Sensors Inc., a California corporation ("IC Sensors") continues as a wholly-owned subsidiary of the Company.

8

The Company has made the following acquisitions which are included in the consolidated financial statements as of the effective date of acquisition (See Notes 7 and 12):

ACQUIRED COMPANY	EFFECTIVE DATE OF ACQUISITION	COUNTRY
Elekon Industries USA, Inc. ("Elekon")	June 24, 2004	USA
Entran Devices, Inc. and Entran SA ("Entran")	July 16, 2004	USA and France
Encoder Devices, LLC ("Encoder")	July 16, 2004	USA



## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Humirel, SA ("Humirel")	December 1, 2004	France
MWS Sensorik GmbH ("MWS Sensorik")	January 1, 2005	Germany
Polaron Components Ltd	February 1, 2005	United Kingdom

Elekon, Entran, Humirel SA and MWS Sensorik are wholly-owned subsidiaries of the Company.

All significant inter-company balances and transactions have been eliminated.

### RECLASSIFICATIONS:

The presentation of certain prior year information has been reclassified to conform with the current year presentation.

The Company reclassified \$6,300 of the current deferred tax asset as of March 31, 2004 to long-term, since a portion of the deferred tax assets will be utilized beyond twelve months. Additionally, the Company reclassified \$2,830 as of March 31, 2004 of the deferred gain on sale of assets to current from long-term, since a portion of the deferred gain on sale would be recognized during the next twelve months.

### STOCK BASED COMPENSATION:

The Company has three stock-based employee compensation plans. The Company applies APB Opinion 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for its plans. There was no compensation expense recognized as a result of options issued. The table below illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement 123, "Accounting for Stock-Based Compensation".

	FOR THE THREE MONTHS ENDED DECEMBER 31, 2004		2003	FOR THE N ENDED DE 2004	
Net income, as reported	\$	3,587	\$	888	\$ 10,933
Add: Stock-based employee compensation expense included in reported income, net of related tax effects		-		-	-
Deduct: Total stock-based employee compensation under fair value based method for awards granted, net of related tax effects		(177)		(277)	(506)
Pro forma net income	\$	3,410	\$	611	\$ 10,427
Net Income per share					
Basic-as reported	\$	0.27	\$	0.07	\$ 0.82
Basic Proforma		0.25		0.05	0.78
Diluted- as reported		0.25		0.06	0.78
Diluted proforma		0.24		0.04	0.74

### RECENT ACCOUNTING PRONOUNCEMENTS:

In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123R (Revised 2004), Share-Based Payment. The new FASB rule requires that the compensation cost relating to share-based payment transactions

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

be recognized in financial statements, rather than disclosed in the footnotes to the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The scope of Statement 123R includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123R replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. FASB Statement 123, as originally issued in 1995, established as

9

preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Statement 123R will be required to be applied as of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently quantifying the impact of FASB 123R, but the Company does believe the adoption of FASB Statement 123R will have a material effect on its financial position and results of operations.

On November 24, 2004, the FASB issued FASB Statement No. 151, Inventory Costs - An amendment of ARB No. 43, Chapter 4. This new standard is the result of a broader effort by the FASB to improve financial reporting by eliminating differences between GAAP in the United States and GAAP developed by the International Accounting Standards Board ("IASB"). As part of this effort, the FASB and the IASB identified opportunities to improve financial reporting by eliminating certain narrow differences between their existing accounting standards. Statement 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be expensed as incurred and not included in overhead. Further, Statement 151 requires that allocation of fixed production overheads to conversion costs should be based on normal capacity of the production facilities. The provisions in Statement 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Companies must apply the standard prospectively. The Company does not believe the adoption of FASB Statement 151 will have a material effect on its financial position or results of operations.

On December 17, 2004, the FASB issued FASB Statement No. 153, Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29. This new standard is the result of a broader effort by the FASB to improve financial reporting by eliminating differences between GAAP in the United States and GAAP developed by the International Accounting Standards Board (IASB). As part of this effort, the FASB and the IASB identified opportunities to improve financial reporting by eliminating certain narrow differences between their existing accounting standards. Statement 153 amends APB Opinion No. 29, Accounting for Nonmonetary Transactions, that was issued in 1973. The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have "commercial substance." Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The provisions in Statement 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted and companies must apply the standard prospectively. The Company does not believe the adoption of FASB Statement 153 will have a material effect on its financial position or results of operations.

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

### 3. INVENTORIES:

Inventories net, consists of the following:

	DECEMBER 31, 2004	MARCH 31, 2004
	-----	-----
RAW MATERIALS	\$ 10,955	\$ 6,777
WORK-IN-PROCESS	3,051	1,210
FINISHED GOODS	7,290	2,183
	-----	-----
	\$ 21,296	\$ 10,170
	=====	=====

Inventory reserves were \$3,950 at December 31, 2004 and \$ 4,206 at March 31, 2004.

### 4. SHORT AND LONG-TERM DEBT:

#### NEW TERM LOAN AND REVOLVING CREDIT FACILITY

-----

On December 17, 2004, the Company entered into a new, \$35,000 five-year credit agreement with GE Commercial Finance, Commercial & Industrial Finance ("GE"), comprised of a \$20,000 term loan and \$15,000 revolving credit facility. JP Morgan Chase Bank, N.A. and Wachovia Bank National Association participated in the syndication. Interest accrues on the principal amount of borrowings at a rate based on either a London Inter-bank Offered Rate (LIBOR) rate plus a LIBOR margin or at an Index (a prime based) Rate plus an Index Margin. The LIBOR or Index Rate is at the election of the borrower. From the closing date to the second anniversary date of the closing, the applicable LIBOR and Index Margins are 4.50% and 2.75%, respectively, and from the second anniversary, the applicable LIBOR and Index Margins are 4.25% and 2.50%, respectively, subject to a 2% increase upon the occurrence of an event of default under the credit agreement. The term loan is payable in nineteen quarterly installments beginning on March 1, 2005 through December 17, 2009. Proceeds from the new credit facility were primarily used to support the

10

acquisition of Humirel (See Note 7), ordinary working capital and general corporate needs and replaced the \$15,000 revolving credit facility with Bank of America Business Capital (formerly Fleet Capital Corporation). The Company has provided a security interest in substantially all of the Company's assets as collateral for the new credit facilities. Borrowings under the line are subject to certain financial covenants and restrictions on indebtedness, dividend payments, financial guarantees, and other related items. At December 31, 2004, the Company was in compliance with applicable debt covenants.

As of December 31, 2004, the Company utilized the prime based Index Rate, and the interest rate applicable to borrowings under the revolving credit facility was 8%. As of December 31, 2004, the outstanding borrowings on the term loan and revolver were \$20,000 and zero, respectively, and the Company had the right to borrow an additional \$15,000 under the revolving credit facility. The revolving credit facility is not directly based on any borrowing base

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

requirements.

### OLD REVOLVING CREDIT FACILITY

-----

On January 31, 2003, the Company entered into a \$15,000 revolving credit facility with Bank of America Business Capital ("BOA") (formerly Fleet Capital Corporation). On December 17, 2004, the revolving credit facility with BOA was replaced by the new \$35,000 credit agreement with GE. In connection with the refinancing, the Company expensed in December 2004, the \$125 in related deferred financing costs, as well as a \$100 early loan termination fee in selling, general and administrative expenses. The BOA credit facility was secured by a lien on substantially all of the Company's assets. Interest accrued on the principal amount of borrowings under this facility at a fluctuating rate per year equal to the lesser of BOA's prime rate for commercial loans plus one percent (subject to a two percent increase upon the occurrence of an event of default under the loan agreement). As of December 17, 2004, the interest rate applicable to borrowings under the old revolving credit facility was 6.25%. Commitment fees on the unused balance are equal to .375% per annum of the average monthly amount by which \$15,000 exceeded the sum of the outstanding principal balance of the revolving credit loans. Commitment fees paid during the quarter ended December 31, 2004 were \$5.

The weighted average short-term interest rate for the above credit facilities was 5.72% for the nine months ended December 31, 2004. The average amount outstanding under the agreements for the period from April 1, 2003 through March 31, 2004 was zero. The average amount outstanding for the three and nine months ended December 30, 2004 was \$4,859 and \$2,855, respectively.

### PROMISSORY NOTES

-----

In connection with the acquisition of Elekon Industries USA, Inc. (See Note 7), the Company issued unsecured Promissory Notes ("Notes") totaling \$3,000, of which \$2,750 was outstanding and \$1,000 considered current at December 31, 2004. The Notes amortize over a period of three years, are payable quarterly and bear interest at 6%.

### OTHER DEBT AND SHORT-TERM DEBT

-----

In connection with the acquisition of Entran Devices, Inc., Entran SA and Humirel SA, the Company has outstanding short-term borrowing of \$649 and long-term borrowings of \$1,914 at December 31, 2004. These amounts are included in short-term and long-term debt, respectively, in the condensed consolidated balance sheet.

### 5. PROPERTY AND EQUIPMENT:

Property and equipment are summarized as follows:

	DECEMBER 31, 2004	MARCH 31, 2004	ESTIMATED USEFUL LIFE
	-----	-----	-----
Building, production machinery and equipment	\$ 16,412	\$ 14,616	5-7 years
Tooling costs	4,770	3,846	5-7 years
Furniture and equipment	5,841	4,138	3-10 years
Leasehold improvements	2,204	1,780	Term of the lease
Construction in progress	895	296	

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Total	30,122	24,676
Less: accumulated depreciation and amortization	(15,868)	(14,048)
	\$ 14,254	\$ 10,628

Depreciation expense was \$754 and \$2,156 for the three and nine months ended December 31, 2004, respectively, and

11

was \$670 and \$2,124 for the three and nine months ended December 31, 2003, respectively.

6. PER SHARE INFORMATION AND STOCK OPTIONS ISSUED:

Basic per share information is computed based on the weighted average common shares outstanding during each period. Diluted per share information additionally considers the shares that may be issued upon exercise or conversion of stock options and warrants, less the shares that may be repurchased with the funds received from their exercise. There were no anti-dilutive shares in the periods present.

The computation of the basic and diluted net income per share is as follows:

	FOR THE THREE MONTHS ENDED DECEMBER 31, 2003			FOR THE NINE MONTHS ENDED DECEMBER 31, 2003	
	Income	Shares	Per Share	Income	Shares
Income from continuing operations	\$ 888	12,402,445	\$ 0.07	\$ 6,274	12,234,849
Income from discontinued operations					
Basic EPS:	-	12,402,445	-	112	12,234,849
Income available to common shareholders	\$ 888	12,402,445	\$ 0.07	\$ 6,386	12,234,849
Effect of dilutive securities:					
Warrants		469,151	-	-	630,968
Options	-	1,132,894	(0.01)	-	1,040,125
	-	1,602,045	(0.01)	-	1,671,093
Diluted EPS:					
Income available to common stockholders and assumed conversions	\$ 888	14,004,490	\$ 0.06	\$ 6,386	13,905,942

For The Three Months  
Ended December 31, 2004

For The Nine Months  
Ended December 31, 2004

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

	Income	Shares	Per Share	Income	Shares
	-----	-----	-----	-----	-----
Income from continuing operations	\$ 3,587	13,439,320	\$ 0.27	\$ 10,933	13,344,886
Basic EPS:					
Income available to common shareholders	\$ 3,587	13,439,320	\$ 0.27	\$ 10,933	13,344,886
Effect of dilutive securities:					
Stock options	-	765,533	(0.02)	-	744,146
Diluted EPS:					
Income available to common stockholders and assumed conversions	\$ 3,587	14,204,853	\$ 0.25	\$ 10,933	14,089,032
	=====	=====	=====	=====	=====

7. ACQUISITIONS:

As part of its growth strategy in the Sensors segment, the Company has made four acquisitions during the nine months ended December 31, 2004. Proforma financial statements are not presented for Elekon, Entran, and Encoder acquisitions because the test of significance for the acquired companies is below the prescribed thresholds. Only the Humirel, SA acquisition meets the test of significance, and accordingly, proforma financial statements are presented below.

On June 24, 2004, the Company acquired 100% of the capital stock of Elekon Industries USA, Inc. ("Elekon") for \$7,750 (\$4,500 in cash at the closing, \$3,000 in unsecured Promissory Notes ("Notes") and \$250 in acquisition costs). The terms of the Notes amortize over a period of three years, are payable quarterly and bear interest at a rate of 6%. If certain performance targets are achieved, an additional \$3,000 could be paid to the principals of Elekon. If paid, these amounts will be treated as additional acquisition costs and

12

will increase the amount of goodwill associated with the acquisition. Elekon is based in Torrance, California where it designs and manufactures optical sensors primarily for the medical and security markets. The transaction was recorded as a purchase, and is included in the consolidated financial results from the date of acquisition through December 31, 2004. The Company has recorded goodwill of \$3,230 for the acquisition. The Company has allocated \$3,155 as personally held intangibles and \$620 to a covenant not to compete from the previously recorded goodwill. \$1,870 of the personally held intangibles has an indefinite life and is therefore not amortized. The remaining \$1,285 of personally held intangibles is for patented and proprietary technology and is being amortized over the asset's estimated useful lives, ranging from 10 to 18.5 years. The covenant not to compete is being amortized over its estimated useful life of 3 years. While substantially completed, the purchase price allocation has not been finalized.

Below is a condensed balance sheet for the acquired business on the date of acquisition:

Elekon Industries, Inc.  
CONDENSED BALANCE SHEET  
OF ACQUIRED ENTITY AT

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

JUNE 24, 2004

Assets	
Cash	\$ 174
Accounts receivable	707
Inventory	1,418
Property and equipment	168
Others	20
	-----
	2,487
	-----
Liabilities	
Accounts payable	(1,286)
Others	(6)
	-----
	(1,292)
	-----
Net Assets Acquired	\$ 1,195
	=====

On July 16, 2004 the Company acquired 100% of the capital stock of Entran Devices, Inc. and Entran SA ("Entran") for \$10,539 (\$6,000 in cash at the closing, \$1,195 in certain liabilities discharged at closing, \$3,254 in deferred payments and \$90 in acquisition costs). The Company will pay a deferred payment of \$2,254 on July 16, 2006, and will pay an additional \$1,000 upon the earlier of October 31, 2005 or the date of the elimination of the lease expense and certain other expenses related to the Fairfield, NJ Facility. Entran, based in Fairfield, NJ and Les Clayes-sous-Bois, France, is a designer/manufacturer of acceleration, pressure and force sensors sold primarily to the automotive crash test and motor sport racing markets. The transaction was recorded as a purchase, and is included in the consolidated financial results from the date of acquisition through December 31, 2004. The Company has recorded goodwill of \$8,269 for the acquisition. While substantially completed, the purchase price allocation has not been finalized.

Below is a condensed balance sheet for the acquired business on the date of acquisition:

Entran Devices, Inc. and Entran SA  
CONDENSED BALANCE SHEET  
OF ACQUIRED ENTITY AT  
JULY 16, 2004

Assets	
Cash	\$ 246
Accounts receivable	2,002
Inventory	1,513
Property and equipment	489
Others	266
	-----
	4,516
	-----
Liabilities	
Accounts payable	(2,085)
Others	(161)

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

	-----
	(2,246)
	-----
Net Assets Acquired	\$ 2,270
	=====

13

On July 16, 2004 the Company acquired the assets of Encoder Devices, LLC. ("Encoder") for \$4,564 (\$4,000 in cash at the closing, \$400 in deferred payments and \$164 in acquisition costs). The Company will pay the deferred payment of \$400 on July 16, 2005. Encoder, based in Plainfield, IL, is a designer /manufacturer of rotational sensors (encoders) utilizing magnetic encoding technology. The transaction was recorded as a purchase, and is included in the consolidated financial results from the date of acquisition through December 31, 2004. The Company has recorded goodwill of \$3,736 and intangibles of \$420 for the acquisition. The intangibles, consisting of \$137 of patents and a covenant not to compete valued at \$283, are estimated to have a useful life of 19.5 and 3 years, respectively, and are being amortized over those periods. While substantially completed, the purchase price allocation has not been finalized.

Below is a condensed balance sheet for the acquired business on the date of acquisition:

Encoder Devices LLC  
CONDENSED BALANCE SHEET  
OF ACQUIRED ENTITY AT  
JULY 16, 2004

Assets	
Accounts receivable	\$ 96
Inventory	134
Property and equipment	251
Others	7
	-----
	488
	-----
Liabilities	
Accounts payable	(80)
	-----
	(80)
	-----
Net Assets Acquired	\$408
	=====

Effective on December 1, 2004, the Company acquired the stock of Humirel SA ("Humirel"), a designer/manufacturer of humidity sensors and assemblies based in France, for 19,000 Euro, or \$25,300 (\$23,400 at close, \$1,914 in deferred payment, and \$498 in acquisition costs). In addition, the sellers can earn up to an additional 6,300 Euro, or \$8,400, if certain performance hurdles, including achieving established gross margin levels in 2005, are achieved. Management shareholders also received \$476 of the closing consideration in restricted stock, or 20,000 shares. The transaction was financed with a term credit facility issued by a syndicate of lending institutions, led by a new lender for



## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

the Company (See Note 4). The transaction was recorded as a purchase, and is included in the consolidated financial results from the date of acquisition through December 31, 2004. The Company has initially recorded goodwill of \$22,214 for the acquisition. The final purchase price allocation has not been completed.

### Humirel SA CONDENSED BALANCE SHEET OF ACQUIRED ENTITY AT December 1, 2004

Assets	
Cash	\$ 994
Accounts receivable	1,513
Inventory	1,755
Property and equipment	1,472
Others	1,730
	-----
	7,464
	-----
Liabilities	
Accounts payable	(1,236)
Current portion of long-term debt	(588)
	-----
Long-term debt, net of current portion	(1,914)
	-----
	(3,738)
	-----
Net Assets Acquired	3,726
	=====

14

Since the Humirel acquisition meets the test of significance threshold for the investment calculation, the following represents the Company's un-audited pro forma consolidated results of operations for the period assuming the Humirel acquisition had occurred as of April 1, 2004, giving effect to purchase accounting adjustments. The pro forma data is for informational purposes only and may not necessarily reflect results of operations had Humirel been operated as part of the Company since April 1, 2003.

#### Nine Months Ended (Un-Audited)

	DECEMBER 31, 2004	DECEMBER 31, 2003	
	-----	-----	
Net Sales	\$ 106,146	\$ 90,385	
Net Income	11,437	6,514	
Net Income per common share			
-Basic	\$ 0.86	\$ 0.53	
-Diluted	\$ 0.81	\$ 0.47	

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

### 8. SEGMENT INFORMATION:

The Company has two business segments, a Sensor segment and a Consumer Products segment.

The Company's Sensor segment designs and manufactures sensors for original equipment manufacturers. These sensors are used for automotive, medical, consumer, military/aerospace and industrial applications. These sensor products include pressure and electromagnetic displacement sensors, piezoelectric polymer film sensors, panel sensors, custom microstructures, load cells, accelerometers optical sensors, and humidity sensors.

The Company's Consumer Products segment designs and manufactures sensor-based consumer products that are sold to retailers and distributors in both the United States and Europe. Consumer products include bathroom and kitchen scales, tire pressure gauges and distance estimators. The Company sold its branded bathroom and kitchen scale business to Conair Corporation on January 30, 2004. Accordingly, in the scale business, the Company now sells exclusively to the original equipment manufacturer market.

Segment data have been presented on a basis consistent with how business activities are reported internally to management.

The Company has no material inter-segment sales.

The following is information related to industry segments:

	For The Three Months Ended			For The En
	December 31,			Decem
	2004	2003	% Change	2004
Net sales				
Sensors	\$ 22,956	\$14,761	55.5%	\$ 63,649
Consumer Products	13,060	17,108	-23.7%	36,598
Total	36,016	31,869	13.0%	100,247
Operating income				
Sensors	5,522	4,025	37.2%	16,432
Consumer Products	1,701	3,731	-54.4%	5,076
Total segment operating income	7,223	7,756	-6.9%	21,508
Unallocated expenses	(1,981)	(6,569)	69.8%	(5,828)
Total operating income	5,242	1,187	341.6%	15,680
Interest expense, net of interest (income)	148	22	572.6%	245
Other (income)	78	51	52.9%	144
Income from continuing operations before income tax	5,016	1,114	350.2%	15,291
Income Tax	1,429	226	532.3%	4,358

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Income from continuing operations	3,587	888	303.9%	10,933
Income from Discontinued Operations	-			-
	-----	-----	-----	-----
Net Income	\$ 3,587	\$ 888	303.9%	\$ 10,933
	=====	=====	=====	=====

15

	DECEMBER 31, 2004	MARCH 31, 2004		
	-----	-----		
Segment Assets				
Sensor	\$ 82,960	\$ 30,326		
Consumer Products	11,379	9,527		
Unallocated	30,478	37,147		
	-----	-----		
Total	\$ 124,817	\$ 77,000		
	=====	=====		

### 9. COMMITMENTS AND CONTINGENCIES:

#### PENDING MATTERS

Robert L. DeWelt v. Measurement Specialties, Inc. et al., Civil Action No. 02-CV-3431. On July 17, 2002, Robert DeWelt, the former acting Chief Financial Officer and former acting general manager of our Schaevitz Division, filed a lawsuit against the Company and certain of the Company's officers and directors in the United States District Court of the District of New Jersey. Mr. DeWelt resigned on March 26, 2002 in disagreement with management's decision not to restate certain of the Company's financial statements. The lawsuit alleges a claim for constructive wrongful discharge and violations of the New Jersey Conscientious Employee Protection Act. Mr. DeWelt seeks an unspecified amount of compensatory and punitive damages. The Company filed a Motion to dismiss this case, which was denied on June 30, 2003. The Company has answered the complaint and is engaged in the discovery process. This litigation is ongoing and the Company cannot predict its outcome at this time.

In re Service Merchandise Company, Inc. (Service Merchandise Company, Inc. v. Measurement Specialties, Inc.), United States Bankruptcy Court for the Middle District of Tennessee, Nashville Division, Case No. 399-02649, Adv. Pro. No. 301-0462A. The Company is currently the defendant in a lawsuit filed in March 2001 by Service Merchandise Company, Inc. ("SMC") and its related debtors (collectively, the "Debtors") in the United States District Court for the Middle District of Tennessee in the context of the Debtors' Chapter 11 bankruptcy proceedings. The Bankruptcy Court entered a stay of the action in May 2001, which was lifted in February 2002. On March 30, 2004, the court entered an order allowing written discovery in the form of interrogatories and requests for production of documents to begin. All other discovery remains stayed. The action alleges that the Company received approximately \$645 from one or more of the Debtors during the ninety (90) day period before the Debtors filed their bankruptcy petitions, that the transfers were to our benefit, were for or on account of an antecedent debt owed by one or more of the Debtors, made when one or more of the Debtors were insolvent, and that the transfers allowed the Company to receive more than the Company would have received if the cases were cases under Chapter 7 of the United States Bankruptcy Code. The action seeks to

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

disgorge the sum of approximately \$645 from the Company. It is not possible at this time to predict the outcome of the litigation or estimate the extent of any damages that could be awarded in the event that the Company found liable to the estates of SMC or the other Debtors.

SEB Patent Issue. On December 12, 2003, Babylliss, SA, a wholly owned subsidiary of Conair Corporation, received notice from the SEB Group ("SEB") alleging that certain bathroom scales manufactured by the Company and sold by Babylliss in France violated certain patents owned by SEB. On May 19, 2004, SEB issued a Writ of Summons to Babylliss and the Company, alleging patent infringement and requesting the Tribunal de Grande Instance de Paris to grant them unspecified monetary damages and injunctive relief. Pursuant to the indemnification provisions of the Conair transaction, the Company has assumed defense of this matter. After thorough review, the Company believes SEB's allegations of patent infringement are without merit and the Company intends to defend our position vigorously. On November 9, 2004, the Company requested of the Tribunal de Grande Instance de Paris a declaration of non-infringement of the SEB patent with regard to certain weighing sensors design known as "M" design included in

16

certain of the Company's bathroom scales other than those to which SEB has alleged infringement. At this time, the Company cannot predict the outcome of this matter.

From time to time, the Company is subject to other legal proceedings and claims in the ordinary course of business. The Company is currently not aware of any such legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on our business, financial condition, or operating results.

### SETTLEMENT

In re: Measurement Specialties, Inc. Securities Litigation, 02 Civ. No. 1071 (D.N.J.). On March 20, 2002, a class action lawsuit was filed on behalf of purchasers of the Company's common stock in the United States District Court for the District of New Jersey against the Company and certain of its present and former officers and directors. The complaint was subsequently amended to include the underwriters of the Company's August 2001 public offering as well as its former auditors. The lawsuit alleged violations of the federal securities laws. The lawsuit sought an unspecified award of money damages. After March 20, 2002, nine additional similar class actions were filed in the same court. The ten lawsuits were consolidated into one case under the caption In re: Measurement Specialties, Inc. Securities Litigation, 02 Civ. No. 1071 (D.N.J.). Plaintiffs filed a Consolidated Amended Complaint on September 12, 2002. The underwriters made a claim for indemnification under the underwriting agreement.

On April 1, 2004, the Company reached an agreement in principle to settle this class action lawsuit. On July 20, 2004, the court approved the settlement agreement. Pursuant to the agreement, the case has been settled as to all defendants in exchange for payments of \$7,500 from the Company and \$590 from Arthur Andersen, the Company's former auditors. Both the Company's primary and excess D&O insurance carriers initially denied coverage for this matter. After discussion, the Company's primary D&O insurance carrier agreed to contribute \$5,000 and the Company's excess insurance carrier agreed to contribute \$1,400 to the settlement of this case. As part of the arrangement with its primary carrier, the Company agreed to renew its D&O coverage for the period from April 7, 2003 through April 7, 2004. The \$3,200 renewal premium paid represented a combination of the market premium for an aggregate of \$6,000 in coverage for this period plus a portion of the Company's contribution toward the settlement.

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

SEC Investigation. In February 2002, the Company contacted the staff of the SEC after discovering that its former chief financial officer had made the misrepresentation to senior management, its board of directors and its auditors that a waiver of a covenant default under its credit agreement had been obtained when, in fact, its lenders had refused to grant such a waiver. Since February 2002, the Company and a special committee formed by its board of directors have been cooperating with the staff of the SEC. In June 2002, the staff of the Division of Enforcement of the SEC informed the Company that it was conducting a formal investigation relating to matters reported in the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2001.

On June 28, 2004, the Company reached a definitive settlement agreement with the SEC which resolved the SEC's investigation of the Company. On June 30, 2004, the court approved the settlement agreement. Pursuant to the definitive settlement agreement, the Company paid one dollar in disgorgement and \$1,000 in civil penalties.

### WARRANTY RESERVE

The Company's sensor products generally have a warranty period of 1 year, and consumer products generally are marketed under warranties to retailers up to ten years. Factors affecting the Company's warranty liability include the number of products sold and historical and anticipated rates of claims and cost per claim. The Company provides for estimated product warranty obligations at the time of sale, based on its historical warranty claims experience and assumptions about future warranty claims. This estimate is susceptible to changes in the near term based on introductions of new products, product quality improvements and changes in end user application and/or behavior.

The following summarizes the warranty reserve:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
Total Warranty Reserve (Beginning)	(\$956)	(\$354)	(\$669)	(\$385)
Warranties issued during the period	377	(168)	(10)	(282)
Costs to repair products	34	69	83	174
Costs to replace products	20	24	71	64
	-----			
Total Warranty Reserve (Ending)	(\$525)	(\$429)	(\$525)	(\$429)
	=====			

17

### ACQUISITION EARN-OUTS

As disclosed in Note 7 above, in connection with the Elekon and Humirel acquisitions, the Company has potential performance based earn-outs totaling \$3,000 and 6,300 Euro (or approximately \$8,400), respectively, if the maximum performance targets are achieved.

### 10. DERIVATIVE INSTRUMENTS

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

As part of the acquisition of Humirel SA, the Company has a number of forward purchase currency contracts with exercise dates beginning January 25, 2005 through October 26, 2005 with a total notional amount of \$8,200 at an average exchange rate of \$1.23 (in US dollars) to hedge Humirel's exposure to fluctuation in the US dollar relative to the Euro. As of December 31, 2004, the fair value of these currency contracts was \$62, and this unrealized gain was recorded in Other Comprehensive Income. The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," on April 1, 2001. SFAS No. 133, as amended by SFAS No. 138 and SFAS No. 149, establishes accounting and reporting standards for derivative instruments and hedging activities.

### 11. RELATED PARTY TRANSACTIONS:

#### RESTRUCTURING SERVICES

In May 2002, the Company retained Corporate Revitalization Partners ("CRP") to conduct its ongoing operational/financial restructuring efforts. In June 2002, Frank Guidone, a Managing Director of CRP, became the Company's Chief Executive Officer (See "Executive Services and Non-Cash Equity Based Compensation" below for a discussion of the current agreement relating to Mr. Guidone's services as Chief Executive Officer of the Company). As of March 31, 2004, on a cumulative basis, the Company has incurred \$3,613 in consulting fees and expenses to CRP. The Company has not utilized the services of CRP since March 31, 2004.

In the fiscal year ended March 31, 2003, CRP earned an aggregate "success fee" of \$138 and warrants exercisable to purchase an aggregate of 120,615 shares of the Company's common stock (at an exercise price of \$2.28/share) as a result of the achievement of certain goals in connection with the Company's restructuring program. On June 12, 13, and July 14, 2003, CRP exercised its warrant to purchase 120,615 shares of stock at an exercise price of \$2.28.

#### EXECUTIVE SERVICES AND NON-CASH EQUITY BASED COMPENSATION

On April 21, 2003, the Compensation Committee of the Company's Board of Directors reached a verbal agreement with Frank Guidone regarding his long term retention as Chief Executive Officer. Definitive agreements memorializing this arrangement were entered into on July 22, 2003, between the Company and Four Corners Capital Partners, LP ("Four Corners"), a limited partnership of which Mr. Guidone is a principal. Pursuant to this arrangement, Four Corners will make Mr. Guidone available to serve as the Company's Chief Executive Officer for which it will receive an annual fee of \$400 (plus travel costs for Mr. Guidone) and will be eligible to receive a performance-based bonus. The agreement is for an indefinite period of time and both parties have the right to terminate the agreement on sixty day's advance notice. Payments under this agreement to Four Corners in the three months and nine months ended December 31, 2004 were \$124 (\$100 for executive services and \$24 for expenses), and \$364 (\$300 for executive services and \$64 for expenses).

In connection with the retention of the services of Mr. Guidone, Four Corners was also issued a warrant to purchase up to 600,000 shares of the Company's common stock at an exercise price of \$3.16 per share. As a result of the performance of the Company's common stock, all warrant shares became vested during the fiscal year ended March 31, 2004. The Company recorded a non-cash equity based compensation charge of \$3,046 (\$0.22 per share diluted) and \$4,954 (\$0.36 per share diluted) during the three month and nine month periods ended December 31, 2004, respectively, representing the estimated fair value of the portion of the warrant that vested.

In addition, in connection with this arrangement, Mr. Guidone entered into a non-competition agreement and Four Corners was granted registration rights relating to any shares purchased under the warrant.

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

### 12. OTHER MATTERS:

#### SUBSEQUENT EVENTS:

Effective January 1, 2005, the Company acquired MWS Sensorik GmbH ("MWS" or "Sensorik"), for 900 Euro (650 Euro at close and 250 in deferred payments) or approximately \$1.2 million.

Effective February 1, 2005, the Company has acquired certain assets of the industrial pressure sensing business of Polaron Components Ltd. in the United Kingdom, for GBP 1.2 million (approximately \$2.25 million). The assets were acquired by the Company's China operation, MSI Sensors (China) Ltd.

18

#### RESTRUCTURING AND OTHER COSTS:

At March 31, 2004, the Company maintained an accrual of \$440 to cover the expected cost of a lease termination during its restructuring. The Company did not make any payments in the nine month period ended December 31, 2004 related to these costs.

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

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

#### FORWARD-LOOKING STATEMENTS

The following discussion of our results of operations and financial condition should be read together with the other financial information, consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. This discussion includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. Forward looking statements may be identified by such words or phrases as "believe," "expect," "intend," "estimate," "anticipate," "project," "will," "may" and similar expressions. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements. The forward-looking statements below are not guarantees of future performance and involve a number of risks and uncertainties. Factors that might cause actual results to differ materially from the expected results described in or underlying our forward-looking statements include:

- Conditions in the general economy and in the markets served by us;
- Competitive factors, such as price pressures and the potential emergence of rival technologies;
- Interruptions of suppliers' operations or the refusal of our suppliers to provide us with component materials;
- Timely development, market acceptance and warranty performance of new products;
- Changes in product mix, costs and yields and fluctuations in foreign currency exchange rates;
- Uncertainties related to doing business in Europe, Hong Kong and China;
- The continued decline in the European consumer products market;
- A decline in the United States consumer products market;
- Legal proceedings described below under "Item 1 - Legal Proceedings"; and
- The risk factors listed from time to time in our SEC reports.

This list is not exhaustive. Except as required under federal securities laws

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

and the rules and regulations promulgated by the SEC, we do not have any intention or obligation to update publicly any forward-looking statements after the filing of this Quarterly Report on Form 10-Q, whether as a result of new information, future events, changes in assumptions or otherwise.

Our fiscal year begins on April 1 and ends on March 31. References in this report to the year 2004 or fiscal 2004 refer to the 12-month period from April 1, 2003 through March 31, 2004 and references in this report to the year 2005 or fiscal 2005 refer to the 12-month period from April 1, 2004 through March 31, 2005.

### OVERVIEW

We are a designer and manufacturer of sensors and sensor-based consumer products. We produce a wide variety of sensors that use advanced technologies to measure precise ranges of physical characteristics including pressure, motion, force, displacement, tilt/angle, flow, distance and humidity. We have two segments, a Sensor and a Consumer Products.

Our Sensor segment designs and manufactures sensors for original equipment manufacturers. These sensors are used for automotive, medical, consumer, military/aerospace and industrial applications. Our sensor products include pressure and electromagnetic displacement sensors, piezoelectric polymer film sensors, panel sensors, custom microstructures, load cells, accelerometers, optical sensors and humidity sensors.

Our Consumer Products segment designs and manufactures sensor-based consumer products that we sell to retailers and distributors in both the United States and Europe. Consumer products include bathroom and kitchen scales, tire pressure gauges and distance estimators.

### EXECUTIVE SUMMARY

Measurement Specialties has seen a significant amount of change over the last several years. We experienced very poor historical margin performance due mainly to under-absorption of the then in place overhead structure. In May 2002, we embarked upon an aggressive restructuring effort to improve the operating performance of the company. A key component of this restructuring was the elimination of underutilized facilities to consolidate our operations in Shenzhen, China and Hampton, Virginia. Having completed this

19

restructuring, Measurement Specialties is now a global sensor solutions company with a broad range of technologies and capabilities. With recent acquisitions of Elekon Industries, Inc., Entran Devices, Inc. Entran SA, Encoder Devices, LLC, Humirel SA, MWS Sensorik GMBH, and Polaron Components Ltd. (the "Acquisitions") (See Notes 7 and 12 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q) as part of our strategic plans, our focus remains engineered solutions where we can use our engineering and manufacturing talent and depth of knowledge and experience in sensors to provide a complete solution to our customers. A key to our manufacturing strategy is leveraging the significant infrastructure we now have in Shenzhen, China. This infrastructure has enabled us to reduce costs and improve financial performance while continuing to provide our customers with low cost, highly reliable products.

The following table sets forth, for the periods indicated, certain items in our consolidated statements of income as a percentage of net sales:



Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS DECEMBER
	2004	2003	2004
Net Sales			
Sensor	63.7%	46.3%	63.5%
Consumer products	36.3%	53.7%	36.5%
Total net sales	100.0%	100.0%	100.0%
Cost of Sales	58.0%	55.9%	57.3%
Gross profit	42.0%	44.1%	42.7%
Expenses (income)			
Selling, general, and administrative	25.0%	25.2%	24.7%
Litigation expense	0.0%	1.3%	0.0%
Non-cash equity based compensation	0.0%	9.6%	0.0%
Research and development	2.6%	2.7%	2.6%
Customer funded development	-0.2%	0.0%	-0.2%
Restructuring costs	0.0%	1.7%	0.0%
Interest expense, net	0.4%	0.1%	0.2%
Gain on sale of wafer fab	0.0%	0.0%	0.0%
Other expenses	0.2%	0.1%	0.1%
	28.0%	40.7%	27.4%
Income from continuing operations before income taxes	14.0%	3.4%	15.3%
Income tax provision	4.0%	0.7%	4.4%
Income from discontinued units	0.0%	0.0%	0.0%
Net income	10.0%	2.7%	10.9%

OUR STRATEGY

Development Strategy. We focus our development efforts in both our Sensor business and Consumer Products business on the original equipment manufacturers (OEM) market. In the Consumer Products business, having both a branded and OEM consumer scale business created some channel conflicts historically. As part of this focus, we sold certain assets associated with our Thinner branded bathroom and kitchen scale business to Conair Corporation on January 30, 2004. We previously sold our Thinner branded scales directly to retailers, predominately in the U.S. and Canada. On a going-forward basis, we expect to supply these scales directly to Conair and intend to continue our efforts in the design, development and manufacture of innovative scale products for sale to our worldwide base of OEM customers. Although our development focus is on the OEM market, we intend to continue to develop and manufacture our tire pressure gauges, which are sold directly to retail customers. As OEM margins have historically been lower than margins on sales to retail customers, we expect our Consumer Products segment margins will decline as a result of this transaction.

Growth Strategy. We are focused on aggressively growing our Sensor segment. We expect that this growth will come through a combination of organic growth and the acquisition of sensor businesses. To that end, since March 31, 2004, the Company has made six Acquisitions referenced above. To finance the Acquisitions, we entered into an expanded \$35 million credit facility (See Note 4 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q) and to finance additional acquisitions we would consider additional borrowings, the sale of equity securities, or the sale of existing Company assets, including assets in our Consumer Products segment.

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

20

Establishment of Offshore Holding Companies. In the quarter ended June 30, 2004, we reorganized our Asia operations under an offshore holding company, Kenabell Holding Limited, a British Virgin Island Company ("Kenabell Holding BVI"). As part of the reorganization, a new entity was formed under Kenabell Holding BVI in the Cayman Islands, Measurement Limited, ("ML Cayman"). A significant portion of the Consumer business in Asia was transferred into ML Cayman during the quarter ended June 30, 2004. These holding companies were formed as part of a foreign tax planning restructuring, and to facilitate any future sale of assets of our Consumer Products business.

MSI Sensors (Asia) (formerly named Measurement Limited, organized in Hong Kong) owns the shares of MSI Sensors (China) Ltd. (formerly named Jingliang Electronics (Shenzhen) Co. Ltd, organized in the peoples Republic of China). Kenabell Holding BVI owns the shares of MSI Sensors (Asia) and ML Cayman. All the companies are included in the consolidated financial statements of the group.

In the quarter ended December 31, 2004, as part of a foreign tax planning restructuring, the Company reorganized its European operations under an offshore holding company, named Acalon, based in Cyprus, as well as establishing Measurement Specialties Foreign Holdings Corporation, a Delaware corporation, which owns Kenabell Holdings BVI, Entran S.A. and Humirel SA.

RESULTS OF OPERATIONS

THE FOLLOWING TABLE SETS FORTH CERTAIN ITEMS IN OUR CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS AND NINE MONHS ENDED DECEMBER 31, 2004 AND 2003, RESPECTIVELY:

	FOR THE THREE MONTHS ENDED DECEMBER 31,			FOR THE NINE MONTHS ENDED DECEMBER 31,	
	2004	2003	% of Change	2004	2003
Net sales					
Sensor	\$ 22,956	\$14,761	55.5	\$ 63,649	\$43,218
Consumer products	13,060	17,108	(23.7)	36,598	42,108
Total net sales	36,016	31,869		100,247	86,326
Cost of goods sold	20,898	17,823	17.3	57,424	47,108
Gross profit	15,118	14,046	7.6	42,823	39,218
Operating expenses (income):					
Selling, general and administrative	9,037	8,018	12.7	24,785	23,108
Litigation	-	400	(100.0)	-	-
Non-cash equity based compensation	-	3,046	(100.0)	-	4,000
Research and development	919	850	8.1	2,576	2,500
Customer funded development	(80)	-		(218)	-
Restructuring costs and other costs	-	545	(100.0)	-	-
Total operating expenses	9,876	12,859		27,143	30,118
Operating income	5,242	1,187		15,680	5,600
Interest expense, net	148	22	572.6	245	245

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Other (income)	78	51	53.2	144	
Income from continuing operations before income tax	5,016	1,114	350.2	15,291	7
Income tax	1,429	226	532.0	4,358	
Income from continuing operations	3,587	888	304.0	10,933	6
Discontinued operations:					
Income from discontinued units	-	-		-	
Net income	\$ 3,587	\$ 888	304.0	\$ 10,933	\$ 6

THREE MONTHS ENDED DECEMBER 31, 2004 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2003

The consolidated financial statements for the three month periods ended December 31, 2004 and December 30, 2003 include the results of the ongoing operations of Measurement Specialties, Inc.

21

### NET SALES.

Sensor Business. Sensors sales increased \$8,195, excluding sales from recent Acquisitions of \$5,814, sales increased \$2,381, or 16.1%. The increase in net sales for our base Sensor business during the three months ended December 31, 2004, is a result of increased demand in our pressure, displacement, and vibration product lines. Significant contributors to the increase in net sales for our pressure line are the expanded demand for automotive sensors, as well as alternative fuel vehicle sensors. Sales of automotive sensors increased by approximately 74%. Sales of the alternative fuel vehicle sensors is new business for MSI. The improved displacement sales are attributed to the application of existing electromagnetic fluid level sensors to new automotive off road platforms, as well as dual axis sensors for safety applications. The sales of existing electromagnetic fluid level sensors increased by approximately 47%. The sale of dual axis sensors for safety applications is new business application for MSI. The vibration line has seen increased sales primarily in the area of our traffic sensor programs, as well as ramping sales due to customer introduction of new products using Piezo film. Traffic sensor sales increased by approximately 70%. Piezo Film sales increased by 21%. The majority of the sales from recent acquisitions are attributable to the Elekon and Entran acquisitions.

Consumer Business. Net sales in the US consumer market decreased in the three months ended December 31, 2004 as compared to the same period in the prior fiscal year. The majority of this decrease is found in the non-scale product lines. Changes in product assortment in two large retailers resulted in a 45% decrease in sales in tire gauge line in the three month period ending December 31, 2004, as compared to the similar period in the prior fiscal year, or 77% of the overall decline. The balance of the decrease occurred in the bath scale line. In spite of a 19.7 % increase in units sold, the net decline in the bath scale line decrease is attributable to lower per unit selling price due to the Conair transaction.

### GROSS MARGIN.

Gross margin as a percent of sales for the three months ended December 31, 2004 decreased to 42.0% from 44.1% for the three months ended December 31, 2003.

Sensor Business. Gross margin as a percent of sales for our base Sensor

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

business increased from 54.7% for the quarter ending December 31, 2003 to 55.3% for the quarter ending December 31, 2004. This increased gross margin occurred as the result of more efficient manufacturing operations. Our improved efficiency in manufacturing operations was the result of our continuing production improvements. Including acquisition sales, gross margin as a percent of sales for our Sensor business decreased to 51.1%. Elekon represents 36% of the acquired sales, and carries a substantially lower gross margin than our base sensor business.

Consumer business. Gross margin as a percent of sales for our Consumer Products business decreased to 24.4% for the three months ended December 31, 2004 from 33.8% for the same period ending December 31, 2003. Gross margin decreased as a result of lower tire gauge sales and the effect of the Conair transaction. Tire gauge sales historically contribute a higher margin than the scale business. Additionally, as a result of the Conair transaction, the entire scale business is now realizing OEM margins, which are historically lower than retail margins. Also contributing to the lower margins was the effect of lower pricing and higher cost of sales in certain of our bath scale lines.

On a continuing basis our gross margin in the Sensor and Consumer Products businesses may vary due to product mix, sales volume, availability of raw materials and other factors.

### SELLING, GENERAL AND ADMINISTRATIVE.

The increase in selling, general and administrative expenses is primarily due to the Acquisitions. These Acquisitions resulted in an increase of approximately \$2,000 for the three months ended December 31, 2004, as compared to the three months ended December 31, 2003. The additional selling, general and administrative costs resulting from the Acquisitions were more than offset by lower expenses for employee profit sharing and lower costs in the Consumer Product segment resulting from the Conair transaction. Offsetting the decline were higher increased professional fees, primarily associated with the implementation of Sarbanes-Oxley requirements, as well as deferred financing costs, early loan termination fees and severance costs of a former executive recorded in the quarter ended December 31, 2004.

### NON-CASH EQUITY BASED COMPENSATION.

During the three months ended December 31, 2003, we recorded a non-cash equity based compensation charge of \$3,046, or \$0.22 per share diluted, for the vesting of the warrant issued to Four Corners Capital Partners LP, a limited partnership of which Mr. Guidone is a principal. All warrants issued to Four Corners vested in fiscal 2004, and there was no comparable charge in the three months ended December 31, 2004. See Note 10 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a discussion of non-cash equity based compensation and the arrangement with Four Corners.

22

### LITIGATION

We recorded a net charge of \$400 during the three months ended December 31, 2003 relating to the SEC investigation and the Hibernia Capital Partners litigation. This net charge represents the combination of a \$1,000 charge relating to the SEC investigation offset by the reversal of \$600 from the prior accrual upon the favorable settlement of the Hibernia lawsuit. See Note 9 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

### RESEARCH AND DEVELOPMENT

We had \$80 of customer-funded development for the three months ended December 31, 2004, compared with zero for the three months ended December 31, 2003. On a net basis, research and development costs decreased \$11, or 1.3%, to \$839 for the three months ended December 31, 2004 from \$850 for the three months ended December 31, 2003.

### RESTRUCTURING COSTS

During the three months ended December 31, 2003, we recorded a charge of \$545 for additional costs relating to our restructuring plan. This charge resulted from the settlement of litigation related to our former facility in Valley Forge, Pennsylvania. There were no such restructuring costs during the nine months ended December 31, 2004.

### INTEREST EXPENSE, NET

Net interest expense increased \$126 to \$148 for the three months ended December 31, 2004, from \$22 for the three months ended December 31, 2003. The increase in interest expense is attributable to the Company having average debt outstanding of \$4,859 for the three months ended December 31, 2004, compared to no debt outstanding for the three months ended December 31, 2003. On a going forward basis, the Company's interest expense will increase as a result of entering into term loan and revolving credit facility. (See Note 4 to the condensed consolidated financial statements included in this Quarterly Report Filed on Form 10-Q.)

### INCOME TAXES

The increase in the provision for income taxes is mainly due to the lower than normal prior year balance. Based on the evaluation of relevant factors last year, a valuation allowance for deferred tax assets was recorded because it was determined that it was more likely than not that a portion or all of the deferred tax assets would not be realized. In arriving at our conclusion to reverse the valuation allowance at March 31, 2004, we took into consideration the guidance provided by FAS 109, after considering both positive and negative evidence. Our analysis of positive evidence supporting the conclusion that the valuation allowance was no longer applicable included the assessment of three key issues that principally lead to the allowance: substantial operating losses, debt and pending litigation.

Our analysis supporting the reversal of the valuation allowance was straight-forward, as the positive evidence which could be objectively verified outweighed the negative evidence. The current and expected results of the Company, as well as taking into account the status of litigation, indicated that the valuation allowance was not needed. The Company had fully executed a restructuring whereby the Company returned to profitability, as supported by the earnings during fiscal 2004. Our provision for income taxes differs from the statutory US federal income tax rate due to our estimate and distribution of the full year's tax rate based upon the expected taxable income taxed at the applicable jurisdiction. The aforementioned expectations and other estimates utilized in calculating the tax provision and our effective tax rate on a quarterly basis involve complex domestic and foreign tax issues are monitored closely and subject to change based on ultimate circumstances. The utilization of a portion of the Company's net operating loss carry forward of \$26,681 at March 31, 2004 will greatly reduce the Company's cash payment for the U.S. portion of the provision for income taxes.

We continue to evaluate the implications of the recently enacted American Jobs Creation Act of 2004. Due to our net operating loss carry-forwards, we do not expect this Act to have an immediate and significant impact on our effective tax

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

rates.

NINE MONTHS ENDED DECEMBER 31, 2004 COMPARED TO NINE MONTHS ENDED DECEMBER 31, 2003

The consolidated financial statements for the nine month period ended December 31, 2004 and December 31, 2003 include the results of the ongoing operations of Measurement Specialties, Inc.

### NET SALES.

Sensor Business. Sensor sales increased \$19,877, excluding sales from recent Acquisitions of \$10,453, sales increased \$9,424, or 21.5%. The increase in net sales for our base Sensor business during the nine months ended December 31, 2004, is a result of increased demand in our pressure, displacement, and vibration product lines. The pressure product line sales have increased due to a one time refurbishment program for a military aircraft. This accounts for 1.4% of the total base Sensors sales for this period. Pressure

23

sales also increased due to expanded demand for automotive braking system sensors, as well as alternative fuel vehicle sensors. Sales of automotive sensors increased by approximately 67.7%. A significant contributor to the increase in net sales for our displacement product line for the nine month period ended December 31, 2004 is higher sales in the automotive sector, as one of our products has been designed into a new platform. These sales increased by 89%. Vibration product line sales increased primarily as a result of increased traffic sensor programs. Additional increase is due to customer introduction of new products using Piezo film. Traffic sensor sales increased by approximately 38.9% while Piezo Film sales increased by approximately 11%. The majority of the sales from recent acquisitions are attributable to the Elekon and Entran acquisitions.

Consumer Business. Lower non-scale product line sales in the U.S. consumer market accounted for 97% of the decline in net sales of our Consumer Products business for the nine month period ended December 31, 2004 as compared to the same period in the prior fiscal year. The decrease is due to changes in customer product assortments of tire gauges in retail customers such as Sears and Target. In spite of a 37.4% increase in units sold, the net decline in the bath scale line is attributable to lower per unit selling prices due to the Conair transaction.

### GROSS MARGIN.

Gross margin as a percent of sales for the nine month period ended December 31, 2004 decreased to 42.7% from 45.0% for the nine months ended December 31, 2003.

Sensor Business. Gross margin as a percent of sales for our base Sensor business decreased from 55.1% for the nine month period ended December 31, 2003 to 54.1% for the same period ending December 31, 2004. This decreased gross margin occurred as the result of a shift in overall product mix to lower margin products, both in automotive and non-automotive businesses. Automotive sensor sales for the pressure line increased from 13.4% of total sales in FY 04 to 18.5% of total sales in FY 05. This product carries a gross margin lower than the average gross margin for the base business, thereby causing the decrease in average gross margin. Including acquisition sales, gross margin as a percent of sales for our Sensor business decreased to 51.7%. Elekon represents 41.6% of the acquired sales, and carries a substantially lower gross margin than our base sensor business.

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Consumer Business. Gross margin as a percent of sales for our Consumer Products business decreased to 25.5% for the nine month period ended December 31, 2004 from 33.1% for the nine month period ended December 31, 2003. The drivers of the margin decline are essentially for the same reasons detailed in the three months ended December 31, 2004 compared to the three months ended December 31, 2003 discussion above.

On a continuing basis our gross margin in the Sensor and Consumer Products businesses may vary due to product mix, sales volume, availability of raw materials and other factors.

### SELLING, GENERAL AND ADMINISTRATIVE.

The increase in selling, general and administrative expenses ("SG&A") is primarily due to the Acquisitions. These Acquisitions resulted in additional SG&A expense of approximately \$3,600 for the nine months ended December 31, 2004. Also contributing to the increase in SG&A expenses were increased legal and professional fees, due principally to costs associated with the implementation of Sarbanes-Oxley requirements. In addition, the nine months ended December 31, 2004, reflects a severance charge for one of the Company's executives. These higher expenses were partially offset by lower expenses for employee profit sharing and lower costs in the Consumer Products segment resulting from the Conair transaction.

### NON-CASH EQUITY BASED COMPENSATION.

During the nine month period ended December 31, 2003, we recorded a non-cash equity based compensation charge of \$4,954, or \$0.36 per share diluted, for the vesting of the warrant issued to Four Corners Capital Partners LP, a limited partnership of which Mr. Guidone is a principal. All warrants issued to Four Corners vested in fiscal 2004, and there was no comparable charge in the nine month period ended December 31, 2004. See Note 10 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a discussion of non-cash equity based compensation and the arrangement with Four Corners.

### RESEARCH AND DEVELOPMENT

We had \$218 of customer-funded development for the nine month period ended December 31, 2004 compared with zero for the nine month period ended December 31, 2003. On a net basis, research and development costs decreased \$252, or 9.7%, to \$2,358 for the nine month period ended December 31, 2004 from \$2,610 for the nine month period ended December 31, 2003.

### INTEREST EXPENSE, NET

Net interest expense decreased \$77, or 24%, to \$245 for the nine month period ended December 31, 2004 from \$322 for the nine month period ended December 31, 2003. The decrease in interest expense is attributable to the Company having an average debt outstanding of \$2,855 for the nine month period ended December 31, 2004, compared to \$3,138 of debt outstanding for the nine

month period ended December 31, 2003.

### INCOME TAXES

The drivers of the higher tax provision are essentially for the same reasons detailed in the three months ended December 31, 2004 compared to the three months ended December 31, 2003 discussion above.

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

### LIQUIDITY AND CAPITAL RESOURCES

Operating working capital (accounts receivable plus inventory less accounts payable) increased by \$8,721 from \$16,261 as of March 31, 2004 to \$24,982 as of December 31, 2004. The increase was attributable to an increase in accounts receivable of \$5,661 from \$14,010 at March 31, 2004 to \$19,671 at December 31, 2004, an increase in inventory of \$11,126 from \$10,170 at March 31, 2004 to \$21,296 at December 31, 2004 and offset by an increase in accounts payable of \$8,066 from \$7,919 at March 31, 2004 to \$15,985 at December 31, 2004.

Contributing to the increase in working capital was the acquisition of Elekon, Entran, Encoder, and Humirel, which added \$3,817 to accounts receivable, \$6,109 in inventory and \$4,700 in accounts payable at December 31, 2004. The increase in inventory is attributable to higher sales, as well as our attempt to reposition and establish inventory buffers in order to reduce manufacturing lead times. We anticipate improving turnover to historical levels over the next several quarters.

Cash provided from operating activities was \$9,418 for the nine month period ended December 31, 2004, as compared to \$8,495 provided for the nine month period ended December 31, 2003. Included in cash provided from operations for the nine month period ended December 31, 2004 is \$2,100 of costs paid to settle our SEC and securities class action legal actions, as compared to \$2,125 for same period last year (See Note 9 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.).

Investing activities included cash payments of \$39,084 for the acquisition of Elekon, Entran, Encoder, and Humirel SA. In addition, capital spending increased to \$3,089 for the nine month period ended December 31, 2004 from \$1,369 for the nine month period ended December 31, 2003. The increase in capital spending is primarily attributable to investment in revenue generating projects at our Shenzhen, China facility. Financing activities for the nine month period ended December 31, 2004 provided \$20,899, reflecting financing for the acquisitions, and proceeds from the exercise of employee stock options.

### NEW TERM LOAN AND REVOLVING CREDIT FACILITY

-----

On December 17, 2004, the Company entered into a new, \$35,000 five-year credit agreement with GE Commercial Finance, Commercial & Industrial Finance ("GE"), comprised of a \$20,000 term loan and \$15,000 revolving credit facility. JP Morgan Chase Bank, N.A. and Wachovia Bank National Association participated in the syndication. Interest accrues on the principal amount of borrowings at a rate based on either a London Inter-bank Offered Rate (LIBOR) rate plus a LIBOR margin or at an Index (a prime based) Rate plus an Index Margin. The LIBOR or Index Rate is at the election of the borrower. From the closing date to the second anniversary date of the closing, the applicable LIBOR and Index Margins are 4.50% and 2.75%, respectively, and from the second anniversary, the applicable LIBOR and Index Margins are 4.25% and 2.50%, respectively, subject to a 2% increase upon the occurrence of an event of default under the credit agreement. The term loan is payable in nineteen equal quarterly installments beginning on March 1, 2005 through December 17, 2009. Proceeds from the new credit facility were primarily used to support the acquisition of Humirel (See Note 7), ordinary working capital and general corporate needs and replaced the \$15,000 revolving credit facility with Bank of America Business Capital (formerly Fleet Capital Corporation). The Company has provided a security interest in substantially all of the Company's assets as collateral for the new credit facilities. Borrowings under the line are subject to certain financial covenants and restrictions on indebtedness, dividend payments, financial guarantees, business combinations, and other related items. At December 31, 2004, the Company was in compliance with applicable debt covenants.



## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

As of December 31, 2004, the Company utilized the prime based Index Rate, and the interest rate applicable to borrowings under the revolving credit facility was 8%. As of December 31, 2004, the outstanding borrowings on the term loan and revolver were \$20,000 and zero, respectively, and the Company had the right to borrow an additional \$15,000 under the revolving credit facility. The revolving credit facility is not directly based on any borrowing base requirements.

### OLD REVOLVING CREDIT FACILITY

-----

On January 31, 2003, the Company entered into a \$15,000 revolving credit facility with Bank of America Business Capital ("BOA") (formerly Fleet Capital Corporation). On December 17, 2004, the revolving credit facility with BOA was replaced by the new \$35,000 credit agreement with GE. In connection with the refinancing, the Company expensed in December 2004, the \$125 in related deferred financing costs, as well as a \$100 early loan termination fee in selling, general and administrative expenses. The BOA credit facility was secured by a lien on substantially all of the Company's assets. Interest accrued on the principal amount of borrowings under this facility at a fluctuating rate per year equal to the lesser of BOA's prime rate for commercial loans plus one percent (subject to a two percent increase upon the occurrence of an event of default under the loan agreement). As of December 17, 2004, the interest rate applicable to borrowings under the old revolving credit facility was 6.25%. Commitment fees on the unused balance are equal to .375% per annum of the average monthly amount by which \$15,000 exceeded the sum of the outstanding principal balance of the revolving credit loans. Commitment fees paid during the quarter ended December 31, 2004 were \$5.

25

The weighted average short-term interest rate for the above credit facilities was 5.72% for the nine months ended December 31, 2004. The average amount outstanding under the agreements for the period from April 1, 2003 through March 31, 2004 was zero. The average amount outstanding for the three and nine months ended December 30, 2004 was \$4,859 and \$2,855, respectively.

### PROMISSORY NOTES

-----

In connection with the acquisition of Elekon Industries USA, Inc. (See Note 7), the Company issued unsecured Promissory Notes ("Notes") totaling \$3,000, of which \$2,750 was outstanding and \$1,000 considered current at December 31, 2004. The Notes amortize over a period of three years, are payable quarterly and bear interest at 6%.

### OTHER SHORT-TERM DEBT

-----

In connection with the acquisition of Entran Devices, Inc., Entran SA and Humirel SA, the Company has outstanding short-term and long-term borrowing of \$649 and \$1,914 at December 31, 2004. These amounts are included in short-term and long-term debt, respectively, in the condensed consolidated balance sheet.

### CURRENT AND NON-CURRENT DEFERRED INCOME TAXES

The Company reclassified \$6.3 million of the current deferred tax asset as of March 31, 2004 to long-term, since a portion of the deferred tax assets will be utilized beyond twelve months. A portion of the deferred tax assets should have been classified as non-current. Prior year balances have been reclassified to conform with current year presentation. This reclassification did not have an

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

impact on the preceding discussion concerning the Company's liquidity and capital resources due to the non-cash nature of deferred tax assets.

### LIQUIDITY

At February 4, 2005, we had approximately \$6,000 of available cash and \$11,500 of borrowing capacity under our revolving credit facility. This amount includes the increased borrowing capacity resulting from the Acquisitions. The decline in the cash balance and increase in borrowing from March 31, 2004 primarily reflects the use of \$38,586 of cash and borrowings of \$20,000 to fund the Acquisitions. See Note 7 included as part of the Company's Condensed Consolidated Financial Statements included in the quarterly report on form 10-Q for a discussion on the Acquisitions.

### OTHER COMPREHENSIVE INCOME

Other comprehensive income consists of foreign currency translation adjustments and unrealized gains on currency hedging contracts. The increase in other comprehensive income is due the changes in the exchange rate of the US dollar relative to the Euro for the Euro denominated operations of Humirel S.A and Entran.

### DEFERRED REVENUE

On January 30, 2004, Conair Corporation purchased certain assets of the Company's Thinner branded bathroom and kitchen scale business, and now owns worldwide rights to the Thinner brand name and exclusive rights to the Thinner designs in North America. The Company has accounted for the sale of this business under the guidance of EITF 00-21. Except for the Conair transaction, the Company does not believe that the adoption of EITF 00-21 will have a material effect on its financial position or results of operations.

### DIVIDENDS

We have not declared cash dividends on our common equity. The payment of dividends is prohibited under the existing credit agreement with GE. We may, in the future, declare dividends under certain circumstances.

At present, there are no material restrictions on the ability of our Hong Kong subsidiary to transfer funds to us in the form of cash dividends, loans, advances, or purchases of materials, products, or services. Chinese laws and regulations, including currency exchange controls, restrict distribution and repatriation of dividends by our China subsidiary.

### SEASONALITY

Our sales of consumer products are seasonal, with highest sales during the second and third fiscal quarters.

### OBLIGATIONS AND COMMITMENTS

Long-term Debt and Notes Payable:

26

The following long-term debt was outstanding at December 31, 2004:

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Index/Prime plus 2.75% (X%) five year term loan payable in sixteen equal quarterly installments of \$500 through 2008, and four \$3,000 quarterly payments through December 17, 2009	\$20,000
6% Promissory notes payable in twelve equal installments through September 20, 2007	2,750
	-----
	22,750
Less long-term debt due currently	3,000
	-----
	\$19,750
	=====

The principal payments of long-term debt are as follows:

	Term Loan	Note Payable	Total
2005	\$ 2,000	\$ 1,000	\$ 3,000
2006	2,000	1,000	3,000
2007	2,000	750	2,750
2008	2,000	-	2,000
2009	12,000	-	12,000
Thereafter	-	-	-
	-----	-----	-----
Total	\$ 20,000	\$ 2,750	\$22,750
	=====	=====	=====

In connection with the Entran and Humirel SA acquisitions, the Company has \$2,563 in debt, of which \$1,914 is long-term.

Leases: The Company leases certain property and equipment under non-cancelable operating leases expiring on various dates through July 2011. Company leases that include escalated lease payments are straight-lined over that base lease period, in accordance with SFAS 13. At December 31, 2004, total minimum rent payments under leases with initial or remaining non-cancelable lease terms of more than one year were:

YEAR ENDING December 31,	
-----	
2005	\$2,197
2006	1,231
2007	1,115
2008	982
2009	948
Thereafter	3,350

Severance: The Company has a severance commitment of \$210 accrued at December 31, 2004 with a former executive whereby the Company pays equal amounts over the next twelve month.

Product Returns

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

As a result of a defective component in a custom manufactured tire gauge, in the quarter ended December 31, 2004 the Company agreed to accept the associated defective products back from this customer. The Company has reversed the effect of this sale in the quarter and has accrued for certain costs associated with the product returns based upon our best estimate at this point in time. As a result, revenues and cost of goods sold were reduced by \$286 and \$77, respectively, resulting in a reduction in gross margin of \$209.

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

(Dollars in Thousands)

#### FOREIGN CURRENCY EXCHANGE RISK

We are exposed to a certain level of foreign currency exchange risk.

The majority of our net sales are priced in United States dollars. Our costs and expenses are priced in United States dollars, Hong Kong dollars, Chinese renminbi and Euros. Accordingly, the competitiveness of our products relative to products produced domestically (in foreign markets) may be affected by the performance of the United States dollar compared with that of our foreign customers' currencies. Additionally, we are exposed to the risk of foreign currency transaction and translation losses, which might result from adverse fluctuations in the values of the Hong Kong dollar, the Chinese renminbi and the Euros. At December 31, 2004, we had net assets of approximately \$17,116 subject to fluctuations in the value of the Hong Kong dollar, net assets of approximately \$7,586 subject to fluctuations in the value of the Chinese renminbi, net assets of approximately \$29,900 subject to fluctuations in the value of the Euro, and net assets of approximately \$69 subject to fluctuations in the value of the British pound. At March 31, 2004, we had net assets of approximately \$4,836 subject to fluctuations in the value of the Hong Kong dollar and the net assets of

27

approximately \$7,330 subject to fluctuations in the value of Chinese renminbi.

Fluctuations in the value of the Hong Kong dollar have not been significant since October 17, 1983, when the Hong Kong government tied the value of the Hong Kong dollar to that of the United States dollar. However, there can be no assurance that the value of the Hong Kong dollar will continue to be tied to that of the United States dollar. China adopted a floating currency system on January 1, 1994, unifying the market and official rates of foreign exchange. China approved current account convertibility of the Chinese renminbi on July 1, 1996, followed by formal acceptance of the International Monetary Fund's Articles of Agreement on December 1, 1996. These regulations eliminated the requirement for prior government approval to buy foreign exchange for ordinary trade transactions, though approval is still required to repatriate equity or debt, including interest thereon.

There can be no assurance that these currencies will remain stable or will fluctuate to our benefit. To manage our exposure to foreign currency and translation risks, we may purchase currency exchange forward contracts, currency options, or other derivative instruments, provided such instruments may be obtained at suitable prices. As part of the purchase of Humirel, we acquired a number of currency contracts, and we will continue to evaluate our exposures and alternatives for possible hedging strategies.

#### INTEREST RATE RISK

On December 17, 2004, the Company entered into a new, \$35 million five-year

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

credit agreement, comprised of a \$20 million term loan and \$15 million revolving credit facility. Interest accrues on the principal amount of borrowings at a rate based on either a LIBOR rate plus a LIBOR margin or at an Index Rate plus an index margin. The LIBOR or Index rate is at the election of the borrower. From the closing date to the second anniversary date of the closing, the applicable LIBOR and Index Margins are 4.50% and 2.75%, respectively, and from the second anniversary, the applicable LIBOR and Index Margins are 4.25% and 2.50%, respectively. Our results will be adversely affected by any increase in interest rates. For example, for every \$1,000 of debt outstanding, an annual interest rate increase of 100 basis points would increase interest expense and thus decrease our after tax profitability by \$10.

We do not hedge this interest rate exposure.

### ITEM 4. CONTROLS AND PROCEDURES

The company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2004. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective for gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. Such evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting, except that relating to the acquisitions of Elekon, Entran, Encoder, and Humirel, as of December 31, 2004, and MWS Sensorik and Polaron Components Ltd subsequent to that date (See Note 2 to the condensed consolidated financial statements included in this Quarterly Report Filed on Form 10-Q.). The Company will be making changes to the internal controls of these newly acquired companies as part of the integration into the Company. However, for purposes of this evaluation, the impact of these six acquisitions on the Company's internal controls over financial reporting have been excluded. The total of the Elekon, Entran, Encoder, and Humirel acquisitions represents approximately \$10,500 in net sales; \$572 in operating income for the nine months ended December 31, 2004 and \$55,151 in total assets and \$53,166 in total liabilities at December 31, 2004, which are included as part of the Company's Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

The Company is currently undergoing a comprehensive effort to ensure compliance with the new regulations under Section 404 of the Sarbanes-Oxley Act of 2002 that will be effective for our fiscal year ending March 31, 2005. Our effort includes identification and documentation of internal controls in our key business processes, as well as formalization of the Company's overall control environment. We are currently in the process of evaluating and testing these controls. As a result of this process, enhancements to the Company's internal controls over financial reporting have been or are being implemented. Management regularly discusses the results of our testing, identified deficiencies and proposed improvements to our control environment with the audit committee and our board of directors. To date, we have not identified any material weaknesses in our internal control as defined by the Public Company Accounting Oversight Board. However, since our evaluation is not yet complete, we can provide no assurance as to our or our independent auditor's conclusions as of March 31, 2005 with respect to the design and effectiveness of the Company's internal controls over financial reporting.

### PART II. OTHER INFORMATION

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

### ITEM 1. LEGAL PROCEEDINGS

(DOLLARS IN THOUSANDS)

Robert L. DeWelt v. Measurement Specialties, Inc. et al., Civil Action No. 02-CV-3431. On July 17, 2002, Robert DeWelt, the former acting Chief Financial Officer and former acting general manager of our Schaevitz Division, filed a lawsuit against the Company and certain of our officers and directors in the United States District Court of the District of New Jersey. Mr. DeWelt resigned on March 26, 2002 in disagreement with management's decision not to restate certain of our financial statements. The lawsuit alleges a claim for constructive wrongful discharge and violations of the New Jersey Conscientious Employee Protection Act. Mr. DeWelt seeks an unspecified amount of compensatory and punitive damages. The Company filed a Motion to dismiss this case, which was denied on June 30, 2003. The Company has answered the complaint and is engaged in the discovery process. This litigation is ongoing and the Company cannot predict its outcome at this time.

28

In re Service Merchandise Company, Inc. (Service Merchandise Company, Inc. v. Measurement Specialties, Inc.), United States Bankruptcy Court for the Middle District of Tennessee, Nashville Division, Case No. 399-02649, Adv. Pro. No. 301-0462A. The Company is currently the defendant in a lawsuit filed in March 2001 by Service Merchandise Company, Inc. ("SMC") and its related debtors (collectively, the "Debtors") in the United States District Court for the Middle District of Tennessee in the context of the Debtors' Chapter 11 bankruptcy proceedings. The Bankruptcy Court entered a stay of the action in May 2001, which was lifted in February 2002. On March 30, 2004, the court entered an order allowing written discovery in the form of interrogatories and requests for production of documents to begin. All other discovery remains stayed. The action alleges that the Company received approximately \$645 from one or more of the Debtors during the ninety (90) day period before the Debtors filed their bankruptcy petitions, that the transfers were to our benefit, were for or on account of an antecedent debt owed by one or more of the Debtors, made when one or more of the Debtors were insolvent, and that the transfers allowed the Company to receive more than the Company would have received if the cases were cases under Chapter 7 of the United States Bankruptcy Code. The action seeks to disgorge the sum of approximately \$645 from the Company. It is not possible at this time to predict the outcome of the litigation or estimate the extent of any damages that could be awarded in the event that the Company found liable to the estates of SMC or the other Debtors.

SEB Patent Issue. On December 12, 2003, Babyliss, SA, a wholly owned subsidiary of Conair Corporation, received notice from the SEB Group ("SEB") alleging that certain bathroom scales manufactured by the Company and sold by Babyliss in France violated certain patents owned by SEB. On May 19, 2004, SEB issued a Writ of Summons to Babyliss and the Company, alleging patent infringement and requesting the Tribunal de Grande Instance de Paris to grant them unspecified monetary damages and injunctive relief. Pursuant to the indemnification provisions of the Conair transaction, the Company has assumed defense of this matter. After thorough review, the Company believes SEB's allegations of patent infringement are without merit and the Company intends to defend our position vigorously. On November 9, 2004, the Company requested of the Tribunal de Grande Instance de Paris a declaration of non-infringement of the SEB patent with regard to certain weighing sensors design known as "M" design included in certain of the Company's bathroom scales other than those to which SEB has alleged infringement. At this time, the Company cannot predict the outcome of this matter.

## Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

From time to time, the Company is subject to other legal proceedings and claims in the ordinary course of business. The Company is currently not aware of any such legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on our business, financial condition, or operating results.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) EXHIBITS

SEE EXHIBIT INDEX.

#### (b) REPORTS ON FORM 8-K.

The following reports on Form 8-K were filed during the three months ended December 31, 2004:

On December 23, 2004, we filed a current report on Form 8-K pursuant to Item 1 (Entry into a Material Definitive Agreement and Termination of a Material Definitive Agreement), and Item 8 (Other Events), to attach a press release reporting our entering into a definitive agreement to purchase the capital stock of Humirel SA, and the replacement of Bank of America revolver with a new \$35 million credit agreement, and a press release reporting the acquisition of MWS Sensorik GmbH.

On December 28, 2004, we filed a current report on Form 8-K pursuant to Item 2 (Completion of Acquisition) to attach a press release reporting the closing of our purchase of the capital stock of Humirel SA

### SIGNATURES

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.

MEASUREMENT SPECIALTIES, INC.

(Registrant)

/s/ John P. Hopkins

Date: February 8, 2005

-----  
John P. Hopkins  
Chief Financial Officer  
(authorized officer and  
principal financial officer)

29

### EXHIBIT INDEX

EXHIBIT  
NUMBER

DESCRIPTION

10.01 Loan and Security Agreement dated December 17, 2004, between Measurement Specialities, Inc. and General Electric Capital Corporation, Wachovia Bank and JPMorgan Chase Bank

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

- 31.1 Certification of Frank D. Guidone required by Rule 13a-14(a) or Rule 15d-14(a)
- 31.2 Certification of John P. Hopkins required by Rule 13a-14(a) or Rule 15d-14(a)
- 32.1 Certification of Frank D. Guidone and John P. Hopkins required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350