

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

MEASUREMENT SPECIALTIES INC

Form 10-Q

August 05, 2004

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

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE
ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30 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

22-2378738

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

710 ROUTE 46 EAST, SUITE 206, FAIRFIELD, NEW JERSEY 07004

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(973) 808-3020

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

(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 classes

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

of common stock, as of the latest practicable date: 13,309,409 shares of common stock, no par value per share, at July 29, 2004.

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.	16
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.	26
ITEM 4. CONTROLS AND PROCEDURES	27
PART II. OTHER INFORMATION	27
ITEM 1. LEGAL PROCEEDINGS	27
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.	28
SIGNATURES	30

ITEM 1. FINANCIAL STATEMENTS

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

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2004	2003
Net sales	\$ 28,020	\$ 26,041
Cost of goods sold	15,443	13,452
Gross profit	12,577	12,589
Operating expenses (income):		
Selling, general and administrative	7,274	7,493

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Non-cash equity based compensation	-	73
Research and development	809	906
Customer funded development	(95)	0
	-----	-----
Total operating expenses	7,988	8,472
	-----	-----
Operating income	4,589	4,117
Interest (income) expense, net	(11)	165
Other (income)	(9)	(7)
	-----	-----
Income from continuing operations before income tax	4,609	3,959
Income tax	1,314	288
	-----	-----
Income from continuing operations	3,295	3,671
Discontinued operations:		
Income from discontinued units	-	112
	-----	-----
Net income	\$ 3,295	\$ 3,783
	=====	=====
Income per common share - Basic		
Income from continuing operations	\$ 0.25	\$ 0.31
Income from discontinued units	-	0.01
	-----	-----
Net income	\$ 0.25	\$ 0.32
	=====	=====
Income per common share - Diluted		
Income from continuing operations	\$ 0.23	\$ 0.29
Income from discontinued units	-	0.01
	-----	-----
Net income	\$ 0.23	\$ 0.30
	=====	=====
Weighted average shares outstanding - Basic	13,267,552	11,952,555
	=====	=====
Weighted average shares outstanding - Diluted	14,195,676	12,487,894
	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3

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

	June 30, 2004	March 31, 2004
-----	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,092	\$ 19,274
Accounts receivable, trade, net of allowance for doubtful accounts of \$424, and \$413 respectively	13,988	14,010

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Inventories	13,700	10,170
Deferred income taxes - current	11,627	12,589
Prepaid expenses and other current assets	2,291	3,267
	-----	-----
Total current assets	57,698	59,310
	-----	-----
PROPERTY AND EQUIPMENT, NET	10,641	10,628
	-----	-----
OTHER ASSETS:		
Goodwill	11,113	4,191
Deferred income taxes	2,214	2,214
Other assets	728	657
	-----	-----
	14,055	7,062
	-----	-----
Total assets	\$ 82,394	\$ 77,000
	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4

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

	JUNE 30, 2004	MARCH 31, 2004
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 9,943	\$ 7,919
Accrued compensation	1,842	3,224
Current portion of Notes from Elekon acquisition	750	-
Accrued expenses and other current liabilities	5,859	4,686
Accrued litigation expenses	-	2,100
	-----	-----
Total current liabilities	18,394	17,929
OTHER LIABILITIES:		
Deferred Gain on sale of assets	6,194	6,744
Notes from Elekon acquisition	2,250	-
Other liabilities	1,302	1,487
	-----	-----
Total liabilities	28,140	26,160
	-----	-----
SHAREHOLDERS' EQUITY		
Serial preferred stock; 221,756 shares authorized; none outstanding		
Common stock, no par; 20,000,000 shares authorized; 13,257,084 and 13,282,874 shares issued and outstanding, respectively	5,502	5,502
Additional paid-in capital	53,627	53,509
Accumulated deficit	(4,802)	(8,097)

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Accumulated other comprehensive loss	(73)	(74)
	-----	-----
Total shareholders' equity	54,254	50,840
	-----	-----
	\$ 82,394	\$ 77,000
	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5

MEASUREMENT SPECIALTIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2004
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Common stock	Additional paid-in capital	Accumulated Deficit	Other Comprehensive Loss
BALANCE, APRIL 1, 2004	\$ 5,502	\$ 53,509	\$ (8,097)	\$ (74)
Net income	-	-	3,295	-
Currency translation adjustment	-	-	-	1
Comprehensive income	-	-	-	-
Warrants issued for professional services	-	0	-	-
Tax benefit from stock options	-	22	-	-
Proceeds from exercise of stock options	-	96	-	-
BALANCE, JUNE 30, 2004	\$ 5,502	\$ 53,627	\$ (4,802)	\$ (73)

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6

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

	FOR THE THREE MONTHS ENDED JUN	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 3,295	\$
Adjustments to reconcile net income to net cash provided by (used in) operating activities income:		
Income from discontinued operations	-	
Depreciation and amortization	636	

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Assets written-off	-	
Deferred rent	(2)	
Amortization deferred gain	(550)	
Provision for bad debt	-	
Non-cash equity based compensation	-	
Tax benefit from stock options	22	
Net changes in operating assets and liabilities:		
Accounts receivable, trade	728	
Inventories	(2,111)	
Deferred income tax asset - current	1,017	
Prepaid expenses and other current assets	940	
Other assets	(599)	
Accounts payable	922	
Accrued litigation costs	(2,100)	
Accrued expenses and other liabilities	(397)	
Working Capital due to Elekon acquisition	-	
Net cash (used in) provided by operating activities	1,801	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(580)	
Purchase of Elekon net of cash acquired	(4,500)	
Net cash (used in) provided by investing activities	(5,080)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing under bridge loan	-	
Repayments of debt	-	
Proceeds from exercise of options and warrants	96	
Net cash used in financing activities	96	
NET CHANGE IN CASH AND CASH EQUIVALENTS, CONTINUING OPERATIONS	(3,183)	
Effect of exchange rates	1	
Cash used for discontinued operations	-	
Cash and cash equivalents, beginning of period	19,274	
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 16,092	\$
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non Cash Financing and Investing Activities:		
Notes issued For Elekon Acquisition	\$ 3,000	\$
Cash paid during the period for:		
Interest	\$ 22	\$
Income taxes	\$ 182	\$

7

MEASUREMENT SPECIALTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. BASIS OF PRESENTATIONS:

Interim financial statements:

These interim financial statements were prepared pursuant to accounting principles for interim financial information, the instructions to Form 10-Q and

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

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 ended June 30, 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.

The following information is unaudited. This report should be read in conjunction with the Company's 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, displacement, tilt/angle, flow and distance. The Company has two businesses, 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, and optical sensors.

The 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.

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 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

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

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.

8

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

Elekon Industries USA, Inc., acquired on June 24, 2004, is a wholly-owned subsidiary of the Company and is included in the consolidated financial statement as of the date of acquisition.

All significant intercompany balances and transactions have been eliminated.

Reclassifications:

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

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 in the first three months of the fiscal year ending March 31, 2005 or in the fiscal year ended March 31, 2004 as a result of options issued with an exercise price below the underlying stock's market price. 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 June 30,	
	2004	2003
Net income, as reported	\$ 3,295	\$ 3,783
add: Stock-based employee compensation expense included in reported net 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	(157)	(37)
Pro forma net income	\$ 3,138	\$ 3,746
Net Income per share		
Basic-as reported	\$ 0.25	\$ 0.32
Basic Proforma	0.24	0.31
Diluted- as reported	0.23	0.30
Diluted proforma	0.22	0.30

Recent Accounting Pronouncements:

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

On May 15, 2003, the Financial Accounting Standards Board ("FASB") issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"), which requires that certain financial instruments be presented as liabilities that were previously presented as equity or as temporary equity. Such instruments include mandatorily redeemable preferred and common stocks and certain options and warrants. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and is generally effective at the beginning of the first interim period beginning after June 15, 2003. The Company has evaluated the requirements of SFAS 150 and has determined that SFAS 150 will not have a material effect on the Company's financial position.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123" ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock Based Compensation" ("SFAS 123") and provides alternative methods for accounting for a change by registrants to the fair value method of accounting for stock-based compensation. Additionally, SFAS 148 amends the disclosure requirements of SFAS 123 to require disclosure in the significant accounting policy footnote of both annual and interim financial statements of the method of accounting for stock-based compensation and the related pro-forma disclosures when the intrinsic value method continues to be used. The statement is effective for fiscal years beginning after December 15, 2002, and disclosures are effective for the first fiscal quarter beginning after December 15, 2002. The Company has elected to continue accounting for stock-based compensation using the intrinsic value method. However, the Company has adopted the new disclosure requirements specified under SFAS No. 148.

9

On July 29, 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). The statement requires companies to recognize costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the statement include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operations, plant closing, or other exit or disposal activity. SFAS 146 is required to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

The Company's previous policy was to accrue restructuring and other costs at the commitment date of a plan in accordance with the provisions of Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges." Accordingly, the Company has provided for certain restructuring costs related to exit or disposal activities initiated prior to December 31, 2002. (See Note 11).

3. INVENTORIES:

Inventories net, consists of the following:

JUNE 30,	MARCH 31,
2004	2004
-----	-----

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

RAW MATERIALS	\$	7,014	\$	6,777
WORK-IN-PROCESS		3,225		1,210
FINISHED GOODS		3,461		2,183
		-----		-----
	\$	13,700	\$	10,170
		=====		=====

Inventory reserves were \$4,245 at June 30, 2004 and \$ 4,206 at March 31, 2004.

4. LONG-TERM DEBT:

Current 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). The revolving credit facility is secured by a lien on substantially all of the Company's assets. Interest accrues 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) or the maximum rate permitted by applicable law. As of June 30, 2004, the interest rate applicable to borrowings under the revolving credit facility was 5.0%. The amount of borrowing available under the revolving credit facility is determined in accordance with a formula based on certain of the Company's accounts receivable and inventory. The revolving credit facility expires on February 1, 2006. As of June 30, 2004, there were no outstanding borrowings and the Company had the right to borrow an additional \$6,384 under the revolving credit facility. Commitment fees on the unused balance are equal to .375% per annum of the average monthly amount by which \$15,000 exceeds the sum of the outstanding principal balance of the revolving credit loans. Commitment fees paid during the quarter ended June 30, 2004 were \$10.

Cash receipts are applied from the Company's lockbox accounts directly against the bank line of credit, and checks clearing the bank are funded from the line of credit. The resulting overdraft balance, consisting of outstanding checks was \$555 at June 30, 2004.

The Company's revolving credit agreement requires it to meet certain financial covenants during the term of the revolving credit facility. In addition to certain other affirmative and negative covenants, which include a restriction on the payment of dividends, the Company is required to keep a minimum fixed charge ratio of 1 to 1 at the end of each fiscal quarter. Fixed charge ratio is defined as operating cash flow, which is EBITDA (earnings before interest, taxes, depreciation and amortization) minus cash taxes paid and minus capital expenditures, divided by the sum of scheduled principle payments and interest expense during that period. The Company is currently in compliance with all covenants in the agreement.

The Company is prohibited from making any cash payment in settlement of the shareholder class action lawsuit, the DeWalt litigation or the previously disclosed Hibernia litigation without the prior written consent of the lender under its revolving credit facility. The Company settled the Hibernia lawsuit in November 2003, and made payment after receiving approval from BOA. On April 1, 2004, the Company reached an agreement in principle to settle the shareholder class action lawsuit, and made payment after receiving approval from BOA. On May 18, 2004, the Company reached an agreement in principle with the SEC which would resolve

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

the commission's investigation of the Company. The Company received final court approval of its settlements of both the shareholder class action and SEC investigation. See Note 9 for a detailed discussion of the terms and conditions related to the shareholder class action lawsuit and SEC investigation settlements.

As of June 30, 2004, the weighted average short-term interest rate on the revolving credit facility was 5.0%. The average amount outstanding under this agreement for the period from April 1, 2003 through March 31, 2004 was zero. The Company maintains a letter of credit for \$34 to guarantee the lease of its facility in Fairfield, NJ.

5. PROPERTY AND EQUIPMENT:

Property and equipment are summarized as follows:

	JUNE 30, 2004	MARCH 31, 2004	ESTIMATED USEFUL LIFE
	-----	-----	-----
Production machinery and equipment	\$ 16,018	\$ 14,616	5-7 years
Tooling costs	3,978	3,846	5-7 years
Furniture and equipment	4,258	4,138	3-10 years
Leasehold improvements	1,727	1,780	Term of the lease
Construction in progress	364	296	
	-----	-----	
Total	26,345	24,676	
Less: accumulated depreciation and amortization	(15,704)	(14,048)	
	-----	-----	
	\$ 10,641	\$ 10,628	
	=====	=====	

Depreciation expense was \$636 for the three month period ended June 30, 2004, and was \$730 for the three month period ended June 30, 2003, respectively.

6. PER SHARE INFORMATION AND STOCK OPTION 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.

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

	FOR THE THREE MONTHS ENDED JUNE 30, 2004		
	Income	Shares	Per Share
	-----	-----	-----
Income from continuing operations	\$ 3,295	13,267,552	\$ 0.25

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Basic EPS:

	-----	-----	-----
Income available to common shareholders	\$ 3,295	13,267,552	\$ 0.25

Effect of dilutive securities:

Stock options		928,124	
	-----	-----	-----

Diluted EPS:

Income available to common stockholders and assumed conversions	\$ 3,295	14,195,676	\$ 0.23
	=====	=====	=====

11

7. ACQUISITIONS:

As part of its growth strategy in the Sensors segment, on June 24, 2004 the Company acquired the capital stock of Elekon Industries USA, Inc. for \$7,750 (\$4,500 in cash at the closing, \$3,000 in deferred payments and \$250 in acquisition costs). If certain performance targets are achieved, an additional \$3,000 could be paid to the principles of Elekon. If paid, these amounts will be treated as additional acquisition costs and 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 June 30, 2004. The Company has recorded goodwill of approximately \$6,922 for the acquisition. Due to the timing of the acquisition, the purchase price allocation has not been finalized. This disclosure does not include pro forma results of operations for the current and comparable prior period because the acquisition was not material to the periods presented.

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

CONDENSED BALANCE SHEET
OF ACQUIRED ENTITY AT
JUNE 24, 2004

Assets	\$	2,120
Liabilities	\$	(1,292)

Net Assets Acquired	\$	828
		=====

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. Our sensor products include pressure and electromagnetic displacement sensors, piezoelectric polymer

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

film sensors, panel sensors, custom microstructures, load cells, accelerometers and optical sensors.

The Company's 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. We sold our branded bathroom and kitchen scale business to Conair Corporation on January 30, 2003. Accordingly, in the scale business, we now sell 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 accounting policies of the segments are substantially the same as those described in Note 2.

The Company has no material intersegment sales.

The following is information related to industry segments:

12

	For The Three Months Ended June 30,	
	2004	2003
	-----	-----
Net sales		
Consumer Products	\$10,879	\$11,251
Sensor	17,141	14,790
	-----	-----
Total	28,020	26,041
	-----	-----
Operating income		
Consumer Products	1,314	2,108
Sensors	5,473	4,597
	-----	-----
Total segment operating income	6,787	6,705
Unallocated expenses	(2,198)	(2,588)
	-----	-----
Total operating income (loss)	4,589	4,117
Interest expense, net of interest (income)	(11)	165
Other (income)	(9)	(7)
	-----	-----
Income from continuing operations before income tax	4,609	3,959
Income Tax	1,314	288
	-----	-----
Income from continuing operations	3,295	3,671
Income from Discontinued Operations	-	112
	-----	-----
Net Income	\$ 3,295	\$ 3,783
	=====	=====

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

	June 30, 2004	March 31, 2004
	-----	-----
Segment Assets		
Consumer Products	\$ 17,147	\$ 11,518
Sensor	43,050	31,474
Unallocated	22,197	34,008
	-----	-----
Total	\$ 82,394	\$ 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 general manager of the Company's Schaevitz Division, filed a lawsuit against the company and certain of its 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 the Company's 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 is found liable to the estates of SMC or the other Debtors.

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

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 the 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 its position vigorously. 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 currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its 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 our common stock in the United States District Court for the District of New Jersey against the Company and certain of our present and former officers and directors. The complaint was subsequently amended to include the underwriters of our August 2001 public offering as well as our 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.

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

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

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.

U.S. Attorney Investigation. The Office of the United States Attorney for the District of New Jersey has been conducting an inquiry into the matters being investigated by the SEC. This inquiry has resulted in a guilty plea by the Company's former CFO. The Company is not aware of any continuing investigation into these matters.

14

10. 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 (excluding the success fees described in this paragraph). In the quarter ended June 30, 2003, the Company incurred \$424 in consulting 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 ended June 30, 2004 were \$100 for executive services and \$25 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 \$6,484 (\$0.46 per share diluted) during the fiscal year ended March 31, 2004, representing the estimated fair value of the portion of the warrant that vested.

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

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.

11. OTHER MATTERS:

Discontinued Operations:

The Company placed its Schaevitz UK entity into receivership on June 5, 2002 pursuant to the terms of a Mortgage Debenture dated February 28, 2001, as the Company was no longer in a position to support its losses. In the quarter ended June 30, 2003 the company received \$112 from the liquidation of its MSS facility in the United Kingdom. This amount is recorded in "income (loss) from discontinued units". There was no receipt of funds from the liquidation of MSS in the quarter ended June 30, 2004.

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 three month period ended June 30, 2004 related to these costs.

12. SUBSEQUENT EVENT:

On July 16, 2004, the Company acquired the capital stock of Entran Devices, Inc., a designer/manufacturer of acceleration, pressure and force sensors for \$9,500 (\$6,000 in cash at the close plus the assumption/discharge of \$1,500 in debt, and \$2,000 in deferred payment).

On July 16, 2004, the Company acquired the assets of Encoder Devices LLC, a designer/manufacturer of rotational sensors utilizing magnetic encoding technology for \$4,400 (\$4,000 cash at close plus a deferred payment of \$400).

15

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

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

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 contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a variety of factors.

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,

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

force, displacement, tilt/angle, flow and distance. We have two businesses, a Sensor business and a Consumer Products business.

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 and optical 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. There were considerable challenges encountered in integrating the acquisition of the Piezo polymer division of AMP (acquired in August 1998), the IC Sensor division of Perkin-Elmer (acquired in February 2000), and the Schaevitz division of TRW (acquired in August 2000) into the Sensors business. As a result, we experienced very poor historical margin performance due mainly to under-absorption of the acquired 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 restructuring, Measurement Specialties is now a global sensor solutions company with a broad range of technologies and capabilities. Our focus is 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.

16

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

	FOR THE THREE MONTHS ENDED	
	JUNE 30,	
	2004	2003
	-----	-----
Net Sales		
Sensor	61.2%	56.8%
Consumer products	38.8	43.2
	-----	-----
Total net sales	100.0	100.0
Cost of Sales	55.1	51.7
	-----	-----
Gross profit	44.9	48.3
Operating expenses (income)		
Selling, general, and administrative	25.9	28.7

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Non-cash equity based compensation	-	0.3
Research and development	2.9	3.5
Customer funded development	(0.3)	-
	-----	-----
Total Operating Expense	28.5	32.5
	-----	-----
Operating Income	16.4	15.8
Interest expense, net	(0.0)	0.6
Other Income	-	-
	-----	-----
Income from continuing operations before income taxes	16.4	15.2
Income Tax Provision	4.6	1.1
Income from discontinued units	-	0.4
	-----	-----
Net income	11.8%	14.5%
	=====	=====

FOR THE THREE MONTHS ENDED JUNE 30, 2004

OUR STRATEGY

Development Strategy. We are focusing 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 has 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, the Company has made three acquisitions since March 31, 2004, two of which were subsequent to June 30, 2004. These acquisitions are described in Notes 7 and 12 to the Condensed Consolidated Financial Statements included in this quarterly Report on Form 10-Q. We currently do not have any other definitive agreements regarding any potential acquisitions. In order to finance any potential acquisitions, we would consider loans from financial institutions, the sale of equity securities, or the sale of existing Company assets, including assets in our Consumer Products segment.

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

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

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.

CRITICAL ACCOUNTING POLICIES

The following accounting policies involve "critical accounting estimates" because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. In addition, while we have used our best estimates based on facts and circumstances available to us at the time, different estimates reasonably could have been used in the current period, or changes in the accounting estimates we used are reasonably likely to occur from period to period, which may have a material impact on the presentation of our financial condition and results of operations. We review these estimates and assumptions periodically and reflect the effects of revisions in the period that they are determined to be necessary.

USE OF ESTIMATES:

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS:

The Company considers highly liquid investments with original maturities of up to three months, when purchased to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

Cash equivalents and short-term debt are carried at cost, which approximates fair value due to the short-term nature of such instruments.

INVENTORIES:

Inventories are stated at the lower of cost or estimated market value. The FIFO (first-in, first-out) method is utilized to determine cost for the Company's inventories.

The Company makes purchasing decisions principally based upon firm sales orders from customers, the availability and pricing of raw materials and projected customer requirements. Future events that could adversely affect these decisions and result in significant charges to its operations include slowdown in customer demand, customer delay in the issuance of sales orders, miscalculation of customer requirements, technology changes that render raw materials and finished goods obsolete, loss of customers and/or cancellation of sales orders. The Company establishes reserves for inventories to recognize

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

estimated obsolescence and unusable items on a continual basis. Market conditions surrounding products are also considered periodically to determine if there are any net realizable valuation matters, which would require a write down of any related inventories. If market or technological conditions change, it may result in additional inventory reserves and write-downs, which would be accounted for in the period of change.

PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, generally three to ten years. Leasehold improvements are amortized over the shorter of the lease terms or the estimated useful lives of the assets. Normal maintenance and repairs of property and equipment are expensed as incurred. Renewals, betterments and major repairs that materially extend the useful life of property and equipment are capitalized.

18

INCOME TAXES:

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of existing assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Tax benefits from early disposition of the stock acquired by employees from the exercise of incentive stock options or non-qualified stock options are credited to additional paid-in capital.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS:

The functional currency of the Company's foreign operations is the applicable local currency. The foreign subsidiaries' assets and liabilities are translated into United States dollars using exchange rates in effect at the balance sheet date. Income and expense items are translated using the average exchange rates prevailing during the year. The resulting translation adjustments are recorded as a component of other comprehensive income (loss). Realized foreign currency transaction gains and losses are included in net income.

GOODWILL:

Prior to adoption of SFAS 142 on April 1, 2001, the Company amortized goodwill over its estimated useful life and evaluated goodwill for impairment in conjunction with its other long-lived assets. See "Long-lived assets" below for further information.

The Company adopted SFAS No. 142 as of April 1, 2001 and ceased amortizing goodwill. In connection with its restructuring program, the Company performed additional impairment tests during the year ended March 31, 2002 that resulted in an impairment charge of \$7,479 in the fourth quarter of such fiscal year of which \$4,417 related to continuing operations and \$3,062 related to discontinued operations. As of March 31, 2004, the Company has reevaluated the impact of SFAS No. 142 on its goodwill, and no additional impairment charges were deemed necessary

Management assesses goodwill for impairment at the reporting unit level on an annual basis or more frequently under certain circumstances. Such circumstances include (i) significant adverse change in legal factors or in the

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

business climate, (ii) an adverse action or assessment by a regulator, (iii) unanticipated competition, (iv) a loss of key personnel, (v) a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of, and (vi) recognition of an impairment loss in a subsidiary that is a component of a reporting unit. Management must make assumptions regarding estimating the fair value of the company reporting units. If these estimates or related assumptions change in the future, the Company may be required to record an impairment charge. Impairment charges would be included in general and administrative expenses in the Company's statements of operations, and would result in reduced carrying amounts of the goodwill.

LONG-LIVED ASSETS:

The Company adopted SFAS 144 as of April 1, 2002. Adoption of this statement did not have a material effect on our financial position or results of operations. Management assesses the recoverability of its long-lived assets, which consist primarily of fixed assets and intangible assets with finite useful lives, whenever events or changes in circumstance indicate that the carrying value may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to expected historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in the Company's stock price for a sustained period; and (iv) a change in the Company's market capitalization relative to net book value. If the recoverability of these assets is unlikely because of the existence of one or more of the above-mentioned factors, an impairment analysis is performed using a projected discounted cash flow method. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. If these estimates or related assumptions change in the future, the Company may be required to record an impairment charge. Impairment charges would be included in general and administrative expenses in the Company's statements of operations, and would result in reduced carrying amounts of the related assets on the Company's balance sheets.

REVENUE RECOGNITION:

Revenue is recorded when products are shipped, based on sales terms, at which time title generally passes to the customer. Certain consumer products may be sold with a provision allowing the customer to return a portion of products. Upon shipment, the Company provides for allowances for returns and warranties based upon historical and estimated return rates. The amount of actual returns could differ from Company estimates. Changes in estimated returns would be accounted for in the period of change.

The Company utilizes manufacturing representatives as sales agents for certain of its products. Such representatives do not receive orders directly from customers, take title to or physical possession of products, or invoice customers. Accordingly, revenue is

19

recognized upon shipment to the customer.

Certain consumer products are sold under "private label" arrangements with various distributors. Such products are manufactured to the distributor's specifications. The Company is not responsible for the ultimate sale to third party customers and therefore records revenue upon shipment to the distributor. Promotional rebates and other consideration provided to customers are reflected as a reduction in revenue.

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

On January 30, 2004, Conair Corporation purchased certain assets of the Company's Thinner branded bathroom and kitchen scale business, including 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. As a significant portion of the proceeds from the sale was in fact an up-front payment for future lost margins, the majority of the gain on sale has been deferred and will be amortized into revenues in future periods over the estimated remaining lives for those products sold to Conair.

ACCOUNTS RECEIVABLE:

The majority of the Company's accounts receivable are due from retailers and manufacturers of electronic, automotive, military and industrial products. Credit is extended based on an evaluation of a customers' financial condition and, generally, collateral is not required. Accounts receivable are generally due within 30 to 90 days and are stated at amounts due from customers net of allowances for doubtful accounts and other sales allowances. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they are considered uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required. Actual uncollectible accounts could exceed the Company's estimates and changes to its estimates will be accounted for in the period of change.

SHIPPING AND HANDLING:

The Company generally does not bill shipping and handling fees to its customers. Shipping and handling costs are recorded in cost of sales.

ACQUISITIONS:

In all acquisitions, the purchase price of the acquired business is allocated to the assets acquired and liabilities assumed at their fair values on the date of the acquisition. The fair values of these items are based upon management's estimates and, in certain cases, with the assistance of an independent professional valuation firm. Certain of the acquired assets are intangible in nature, including trademarks. Management employs an independent valuation firm to assist in determining the fair value of these intangible assets. The excess purchase price over the amounts allocated to the assets is recorded as goodwill.

All such valuation methodologies, including the determination of subsequent amortization periods, involve significant judgments and estimates. Different assumptions and subsequent actual events could yield materially different results.

RESEARCH AND DEVELOPMENT:

Research and development expenditures are expensed as incurred. Customer funding is recognized as a reduction in research and development expense when earned.

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

COMPREHENSIVE INCOME (LOSS):

Comprehensive income (loss) consists of net earnings or loss for the period and the impact of unrealized foreign currency translation adjustments.

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 in

20

2004, 2003 and 2002 as a result of anti-dilutive effect since no options were issued with an exercise price below the underlying stock's market price. The following table 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", to its stock-based employee plans.

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2004	2003
Net income, as reported	\$ 3,295	\$ 3,783
add: Stock-based employee compensation expense included in reported net 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	(157)	(37)
Pro forma net income	\$ 3,138	\$ 3,746
Net Income per share		
Basic-as reported	\$ 0.25	\$ 0.32
Basic Proforma	0.24	0.31
Diluted- as reported	0.23	0.30
Diluted proforma	0.22	0.30

LEASES:

The Company follows SFAS No. 13, "Accounting for leases" to account for its operating leases. In accordance with SFAS No. 13, lease costs, including escalations, are provided for using the straight-line basis over the lease period. The Company did not have any capital lease obligations at March 31, 2004 and 2003.

DERIVATIVE INSTRUMENTS:

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

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

derivative instruments and hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measures those instruments at fair value. Changes in the fair value of those instruments will be reported in earnings or other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative and the effect on the consolidated financial statements will depend on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of cash flows of the asset or liability hedged. The Company did not qualify for hedge accounting for its interest rate swap. During the year ended March 31, 2002, an aggregate of \$871 was reflected in the income statement related to an interest rate swap. Of such amount, \$623 was reflected as interest expense and \$248 was recorded as the cumulative effect of the adoption of the accounting principle. The fair value of the swap at March 31, 2002 was included in accrued expenses.

As part of the Company's refinancing plan, in October 2002 all derivative financial instruments were satisfied. The cost of these financial instruments for the fiscal year ended March 31, 2003 was \$154 and has been included in interest expense.

Terraillon had certain foreign currency derivatives which effects are included in discontinued operations in 2002 and 2003.

INVENTORIES:

We make purchasing decisions principally based upon firm sales orders from customers, the availability and pricing of raw materials and projected customer requirements. Future events that could adversely affect these decisions and result in significant charges to our operations include slowdown in customer demand, customer delay in the issuance of sales orders, miscalculation of customer requirements, technology changes that render raw materials and finished goods obsolete, loss of customers and/or cancellation of sales orders. We establish reserves for our inventories to recognize estimated obsolescence and unusable items on a continual basis. Market conditions surrounding products are also considered periodically to determine if there are any net realizable valuation matters which would require a write-down of any related inventories. If market or technological conditions change, it may result in additional inventory reserves and write-downs which would be accounted for in the period of change.

21

GOODWILL IMPAIRMENT:

Management assesses goodwill for impairment at the reporting unit level on an annual basis or more frequently under certain circumstances. Such circumstances include: (i) significant adverse change in legal factors or in the business climate; (ii) an adverse action or assessment by a regulator; (iii) unanticipated competition; (iv) a loss of key personnel; (v) a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of; and (vi) recognition of an impairment loss in a subsidiary that is a component of a reporting unit. Management must make assumptions regarding estimating the fair value of our reporting units. If these estimates or related assumptions change in the future, we may be required to record an impairment charge. Impairment charges would be included in general and administrative expenses in our statements of operations, and would result in reduced carrying amounts of the goodwill.

LONG LIVED ASSETS:

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Management assesses the recoverability of long-lived assets, which consist primarily of fixed assets and intangible assets whenever events or changes in circumstance indicate that the carrying value may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in our stock price for a sustained period; and (iv) a change in our market capitalization relative to net book value. If the recoverability of these assets is unlikely because of the existence of one or more of the above-mentioned factors, an impairment analysis is performed using a projected discounted cash flow method. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or related assumptions change in the future, we may be required to record an impairment charge. Impairment charges would be included in general and administrative expenses in our statements of operations, and would result in reduced carrying amounts of the related assets on our balance sheets.

INCOME TAXES:

We file income tax returns in every jurisdiction in which we have reason to believe that we are subject to tax. Historically, we have been subject to examination by various taxing jurisdictions. To date, none of these examinations has resulted in any material additional tax. Nonetheless, any tax jurisdiction may contend that our filing position regarding one or more of our transactions is contrary to that jurisdiction's laws or regulations.

The income tax provision is based upon the proportion of pretax profit in each jurisdiction in which we operate. The income tax rates in Hong Kong and China are less than those in the United States. Deferred income taxes are not provided on our subsidiaries' earnings, which are expected to be reinvested. Distribution, in the form of dividends or otherwise, would subject our subsidiaries' earnings to United States income taxes, subject to an adjustment for foreign tax credits. Determination of the amount of unrecognized deferred United States income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

WARRANTY RESERVE:

Our sensor and consumer products generally are marketed under warranties to end users of up to ten years. Factors affecting our warranty liability include the number of products sold and historical and anticipated rates of warranty claims and cost per claim. We provide for estimated product warranty obligations at the time of sale, based on our 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/declines and changes in end user application and/or behavior.

CONTINGENCIES AND LITIGATION:

We periodically assess the potential liabilities related to any lawsuits or claims brought against us. While it is typically very difficult to determine the timing and ultimate outcome of these actions, we use our best judgment to determine if it is probable that we will incur an expense related to a settlement or judgment for such matters and whether a reasonable estimation of such probable loss, if any, can be made. Given the inherent uncertainty related to the eventual outcome of litigation, it is possible that all or some of these matters may be resolved for amounts materially different from any estimates that we may have made with respect to their resolution. See Note 9 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further discussion of contingencies and litigation.

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

NON-CASH EQUITY BASED COMPENSATION:

We have issued warrants, under an agreement for the services of our Chief Executive Officer, to a limited partnership (LP). The LP is partially controlled by our chief executive officer. The warrant agreement allows the LP to purchase a certain number of shares of our stock, at an agreed-upon exercise price. The warrant shares were to vest at 35%, 30%, 20% and 15% each year

22

over a four-year period, with the potential of a reduced vesting period if certain targets are achieved. We recorded non-cash equity based compensation expense on the warrants as the shares vested. The warrants are valued using the Black-Scholes option pricing model, using an appropriate risk free interest rate, volatility factor, and an estimated warrant life. All warrants under this agreement vested and have been exercised, and the associated costs expensed in fiscal year ended March 31, 2004.

RESULTS OF OPERATIONS

THE FOLLOWING TABLE SETS FORTH CERTAIN ITEMS IN OUR CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS ENDED JUNE 30, 2004 AND JUNE 30, 2003:

	For The Three Months Ended		
	June 30, 2004	2003	% Change
Net sales			
Consumer Products	\$ 10,879	\$ 11,251	-3.3%
Sensor	17,141	14,790	15.9%
Total	28,020	26,041	7.6%
Operating income			
Consumer Products	1,314	2,108	-37.7%
Sensors	5,473	4,597	19.1%
Total segment operating income	6,787	6,705	1.2%
Unallocated expenses	(2,198)	(2,588)	-15.1%
Total operating income (loss)	4,589	4,117	11.5%
Interest expense, net of interest (income)	(11)	165	-106.7%
Other (income)	(9)	(7)	28.6%
Income from continuing operations before income tax	4,609	3,959	16.4%
Income Tax	1,314	288	356.3%
Income from continuing operations	3,295	3,671	-10.2%
Income from Discontinued Operations	-	112	-100.0%
Net Income	\$ 3,295	\$ 3,783	-12.9%

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

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

Net Sales.

Sensor Business. Sales generally increased along all product lines in the Sensor segment. A significant contributor to the increase in net sales for our Sensor business during the three months ended June 30, 2004 is higher displacement sales in the automotive sector, as one of our products has been designed into a new platform. In addition, Microfused product line sales increased significantly as compared to the same period in the prior fiscal year. The improved sales in this product line are primarily due to expanded demand for automotive pressure sensors and the recapture of business from a prior customer. The Pressure and Piezo product lines had modest increases this quarter compared to the same period in the prior fiscal year.

Consumer Products Business. Lower tire gauge sales in the U.S. consumer market accounted for the majority of the decline in net sales of our Consumer Products business for the three months ended June 30, 2004, as compared to the same period in the prior fiscal year. We supplied one tire gauge promotion offered by a warehouse club customer in the three months ended June 30, 2003.

23

We did not supply any tire gauge promotions in the three months ended June 30, 2004. Higher OEM sales in the bath scale business more than offset the impact of the lower pricing structure resulting from the Conair transaction.

Gross Margin.

Gross margin as a percent of sales for the three months ended June 30, 2004 decreased to 44.9% from 48.3% for the three months ended June 30 2003.

Sensor Business. Gross margin as a percent of sales for our Sensor business was flat quarter over quarter. Sensor margins in the quarter ended June 30, 2003 benefited from favorable raw material costs. Sensor margins in the quarter ended June 30, 2004 benefited from more favorable product mix.

Consumer Products Business. Gross margin as a percent of sales in our Consumer Products business decreased to 24.3% for the three months ended June 30, 2004 from 34.1% for the three months ended June 30, 2003. Gross margin decreased as a result of lower tire gauge sales and also as a result of the Conair transaction, as the remaining tire gauge business continues to absorb facility costs associated with the warehouse location that previously served both the retail scale business and the tire gauge business. Bath and kitchen scale gross margins declined primarily as a result of the Conair transaction, as the entire scale business is now realizing OEM margins, which are historically lower than retail margins.

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 decrease in selling, general and administrative expenses is primarily due to reduced legal and professional fees incurred during the three months ended June 30, 2004 as compared to the same quarter in prior fiscal year. These

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

legal and professional fees decreased approximately \$208 in the three months ended June 30, 2004 as compared to the three months ended June 30, 2003. In addition, lower expenses for employee profit sharing and lower costs in the Consumer Products segment resulting from the Conair transaction, were partially offset by higher selling, general and administrative expenses in the Sensors segment.

Non-Cash Equity Based Compensation.

During the three months ended June 30, 2003, we recorded a non-cash equity based compensation charge of \$73, or \$0.01 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 June 30, 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 \$95 of customer-funded development for the three months ended June 30, 2004 compared with zero for the three months ended June 30, 2003. On a net basis, research and development costs decreased \$192, or 21.2%, to \$714 for the three months ended June 30, 2004 from \$906 for the three months ended June 30, 2003.

Interest Expense, Net.

The decrease in interest expense to interest income is attributable to the Company having no debt outstanding for the three months ended June 30, 2004, compared to \$5,344 in debt outstanding for the three months ended June 30, 2003.

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. The uncertainty with the then pending litigation resulted in this assessment. However, as the situation improved by the fiscal year ended March 31, 2004, a valuation allowance was determined to be no longer necessary. Our provision for income taxes represents our estimate of the full year's tax rate based upon the expected taxable income taxed at the applicable jurisdiction. The utilization of a portion of the Company's net operating loss carry forward of \$26,681 at March 31, 2004 will result in the Company not having to make a cash payment for the U.S. portion of the provision for income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Operating working capital (accounts receivable plus inventory less accounts payable) increased by \$1,484 from \$16,261 as of March 31, 2004 to \$17,745 as of June 30, 2004. The increase was attributable to an increase in inventory of \$3,530 from \$10,170 at March 31, 2004 to \$13,700 at June 30, 2004 and offset by a decrease in accounts receivable of \$22 from \$14,010 at March 31, 2004 to \$13,988 at June 30, 2004 and an increase in accounts payable of \$2,024 from \$7,919 at March 31, 2004 to \$9,943 at June 30, 2004. Contributing to the increase in working capital was the acquisition of Elekon, which added \$596 to accounts receivable, \$1,536 in inventory and \$1,194 in accounts payable at June

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

30, 2004. The increase in inventory is also attributable to higher inventory levels in our Sensor business as the company implements stocking programs on a number of product lines, as well as increases based on anticipated demand. Due to the seasonal nature of our business, Consumer Products is in a period of building inventory, resulting in higher inventory levels from March 31, 2004.

Cash provided by operating activities was \$1,801 for the three months ended June 30, 2004 as compared to \$52 provided for the three months ended June 30, 2003. Included in cash provided from operations for the three month period ended June 30, 2004 is \$2,100 of costs paid to settle our SEC and securities class action legal actions (See Note 9 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.).

Investing activities included cash payments of \$4,500 for the acquisition of Elekon. In addition, capital spending increased to \$580 for the three months ended June 30, 2004 from \$412 for the three months ended June 30, 2003. The increase in capital spending is primarily attributable to investment in revenue generating projects at our Shenzhen, China facility. Financing activities for the three months ended June 30, 2004 provided \$96, reflecting proceeds from the exercise of employee stock options.

Revolving Credit Facility

On January 31, 2003, we entered into a \$15,000 revolving credit facility with Bank of America Business Capital ("BOA") (formerly known as Fleet Capital Corporation). The revolving credit facility is secured by a lien on substantially all of our assets. Interest accrues on the principal amount of our 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) or the maximum rate permitted by applicable law. As of June 30, 2004, the interest rate applicable to borrowings under the revolving credit facility was 5.0%. The amount of borrowing available under the revolving credit facility is determined in accordance with a formula based on certain of our accounts receivable and inventory. The revolving credit facility expires on February 1, 2006.

Our revolving credit agreement requires us to meet certain financial covenants during the term of the revolving credit facility. In addition to certain other affirmative and negative covenants, which include a restriction on the payment of dividends, we are required to keep a minimum fixed charge ratio of 1 to 1 at the end of each fiscal quarter. Fixed charge ratio is defined as operating cash flow, which is EBITDA (earnings before interest, taxes, depreciation and amortization) minus cash taxes paid and minus capital expenditures, divided by the sum of scheduled principle payments and interest expense during that period. We are currently in compliance with all covenants in the agreement. As of June 30, 2004, there were no outstanding borrowings and the Company had \$6,384 of borrowing capacity under the revolving credit facility.

Liquidity

At July 29, 2004, we had approximately \$7,799 of available cash and \$2,638 of borrowing capacity under our revolving credit facility. This amount includes the increased borrowing capacity resulting from the acquisition of Elekon Industries USA, Inc. The decline in the cash balance and borrowing capacity from June 30, 2004 reflects the use of \$7,539 of cash and borrowings of \$ 3,803 to fund the Entran Devices, Inc. and Encoder Devices, LLC acquisitions. See Note 12 included as part of the Company's Condensed Consolidated Financial Statements included in the quarterly report on form 10-Q for a discussion on these acquisitions. With the acquisition of Entran and Encoder Devices in July 2004, our borrowing capacity is expected to slightly increase.

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Dividends

We have not declared cash dividends on our common equity. Additionally, the payment of dividends is prohibited under our credit agreement. If permitted under applicable law and consented to by our lenders, 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

25

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.

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 and Chinese renminbi. 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 and the Chinese renminbi. At June 30, 2004, we had net assets of approximately \$5,364 subject to fluctuations in the value of the Hong Kong dollar and net assets of approximately \$7,246 subject to fluctuations in the value of the Chinese renminbi. At June 30, 2003, we had net assets of approximately \$1,600 subject to fluctuations in the value of the Hong Kong dollar and net liabilities of approximately \$15,400 subject to fluctuations in the value of Chinese renminbi. 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 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

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

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. However, to date we have not done so.

Interest Rate Risk

Interest on our revolving credit facility accrues on the principal amount of our borrowings under the 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) or the maximum rate permitted by applicable law. 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.

CAUTIONARY STATEMENT

This report 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 above 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;

26

- Changes in product mix, costs, yields and fluctuations in foreign currency exchange rates;
- Uncertainties related to doing business in Hong Kong and China;
- The continued decline in the European consumer products market; 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 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.

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

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

of the company's disclosure controls and procedures as of June 30, 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 June 30, 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 acquisition of Elekon Industries, USA, Inc ("Elekon"). The Company will be making changes to Elekon's internal controls as part of the integration into the Company. However, for purposes of this evaluation, the impact of Elekon on the Company's internal controls over financial reporting have been excluded. Elekon represents approximately \$83 in net sales; \$5 in operating income for the three months ended June 30, 2004 and \$2,120 in total assets and \$1,292 in total liabilities at June 30, 2004 included as part of the Company's Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

(DOLLARS IN THOUSANDS)

PENDING MATTERS

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

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

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 us 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 us, alleging patent infringement and requesting the Tribunal de Grande Instance de Paris to grant them unspecified monetary damages and injunctive relief. Pursuant to

27

the indemnification provisions of the Conair transaction, we have assumed the defense of this matter. After thorough review, we believe SEB's allegations of patent infringement are without merit and we intend to defend our position vigorously. At this time, we cannot predict the outcome of this matter.

From time to time, we are subject to other legal proceedings and claims in the ordinary course of business. We currently are not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its 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 our common stock in the United States District Court for the District of New Jersey against the company and certain of our present and former officers and directors. The complaint was subsequently amended to include the underwriters of our August 2001 public offering as well as our 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, we 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, its former auditors. Both our primary and excess D&O insurance carriers initially denied coverage for this matter. After discussion, our primary D&O insurance carrier agreed to contribute \$5,000 and our excess insurance carrier agreed to contribute \$1,400 to the settlement of this case. As part of the arrangement with our primary carrier, we agreed to renew our 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 our contribution toward the settlement.

SEC Investigation. In February 2002, we contacted the staff of the SEC after discovering that our former chief financial officer had made the misrepresentation to senior management, our board of directors and our auditors that a waiver of a covenant default under our credit agreement had been obtained when, in fact, our lenders had refused to grant such a waiver. Since February 2002, the company and a special committee formed by our board of directors have been cooperating with the staff of the SEC. In June 2002, the staff of the

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

Division of Enforcement of the SEC informed us that it was conducting a formal investigation relating to matters reported in our Quarterly Report on Form 10-Q for the quarter ended December 31, 2001.

On June 28, 2004, we 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, we paid one dollar in disgorgement and \$1,000 in civil penalties.

U.S. Attorney Investigation. The office of the United States Attorney for the District of New Jersey has been conducting an inquiry into the matters being investigated by the SEC. This inquiry has resulted in a guilty plea by our former CFO. We are not aware of any continuing investigation into these matters.

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 June 30, 2004:

On May 25, 2004, we filed a current report on Form 8-K pursuant to Item 9 (Regulation FD Disclosure) to attach a press release reporting that we will be presenting at Micro Capital's Third Annual Investor Conference

On May 25, 2004, we filed a current report on Form 8-K pursuant to Item 5 (Other Events and Required FD Disclosure) and Item 7 (Financial Statements, Pro Forma Financial Information and Exhibits) to attach a press release reporting the settlement of the SEC investigation and announcing the scheduling of an earnings release.

28

On May 28, 2004, we filed a current report on Form 8-K pursuant to Item 12 (Results of Operations and Financial Condition) to attach a press release reporting results for our three and twelve month periods ended March 31, 2004.

On May 28, 2004, we filed a current report on Form 8-K pursuant to Item 9 (Regulation FD Disclosure) to attach an exhibit of our Consolidated Statements of Operations for the three months ended March 31 2003, and 2004.

On June 28, 2004, we filed a current report on Form 8-K pursuant to Item 2 (Acquisition or Disposition of Assets) to attach a press release reporting our purchase of all the outstanding stock of Elekon Industries USA, for \$7,500 consisting of \$4,500 in cash paid at closing, and \$3,000 in deferred payments.

29

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.

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

MEASUREMENT SPECIALTIES, INC.

(Registrant)

/s/ John P. Hopkins

Date: August 4, 2004

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

30

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
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

31