

Measurement Specialties Inc
Form 10-Q
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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 FISCAL QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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)

MEASUREMENT SPECIALTIES, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Three months ended September 30,		Six months ended September 30,	
(Amounts in thousands, except share and per share amounts)	2012	2011	2012	2011
Net sales	\$87,758	\$73,243	\$176,371	\$150,428
Cost of goods sold	50,827	43,203	102,646	87,980
Gross profit	36,931	30,040	73,725	62,448
Selling, general, and administrative expenses	25,627	21,816	50,716	43,876
Operating income	11,304	8,224	23,009	18,572
Interest expense, net	662	548	1,384	1,126
Foreign currency exchange loss (gain)	202	(378)	241	20
Equity income in unconsolidated joint venture	(163)	(235)	(392)	(372)
Impairment of asset held for sale	489	-	489	-
Acquisition earn-out adjustment	(3,722)	-	(3,722)	-
Other expense (income)	(73)	3	(39)	51
Income before income taxes	13,909	8,286	25,048	17,747
Income tax expense	3,503	1,630	6,069	3,083
Net income	\$10,406	\$6,656	\$18,979	\$14,664
Earnings per common share - Basic:				
Net income - Basic	\$0.68	\$0.44	\$1.24	\$0.97
Net income - Diluted	\$0.64	\$0.42	\$1.18	\$0.92
Weighted average shares outstanding - Basic				
	15,376	15,093	15,347	15,068
Weighted average shares outstanding - Diluted				
	16,138	15,910	16,146	15,969

See accompanying notes to consolidated condensed financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF
COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(UNAUDITED)

(Amounts in thousands)	Three months ended		Six months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net income	\$ 10,406	\$ 6,656	\$ 18,979	\$ 14,664
Other comprehensive income, net of income taxes:				
Currency translation adjustments	675	(4,438)	(2,854)	(287)
Comprehensive income	\$ 11,081	\$ 2,218	\$ 16,125	\$ 14,377

See accompanying notes to consolidated condensed financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES**CONSOLIDATED CONDENSED BALANCE SHEETS****(UNAUDITED)**

(Amounts in thousands)	September 30, 2012	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,505	\$ 32,725
Accounts receivable trade, net of allowance for doubtful accounts of \$877 and \$766, respectively	51,377	49,315
Inventories, net	58,725	57,704
Deferred income taxes, net	1,623	1,626
Prepaid expenses and other current assets	4,827	5,229
Other receivables	1,110	2,967
Asset held for sale	940	1,429
Total current assets	147,107	150,995
Property, plant and equipment, net	62,623	60,484
Goodwill	149,143	144,455
Acquired intangible assets, net	52,038	49,378
Deferred income taxes, net	3,571	3,613
Investment in unconsolidated joint venture	2,794	3,038
Other assets	6,808	6,244
Total assets	\$ 424,084	\$ 418,207

See accompanying notes to consolidated condensed financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES**CONSOLIDATED CONDENSED BALANCE SHEETS****(UNAUDITED)**

(Amounts in thousands, except share amounts)	September 30, 2012	March 31, 2012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ -	\$ 1,867
Current portion of long-term debt	161	123
Current portion of capital lease obligations	26	30
Deferred acquisition payment	1,480	-
Accounts payable	28,348	31,879
Accrued expenses	4,600	5,116
Accrued compensation	10,656	8,755
Income taxes payable	1,151	3,124
Deferred income taxes, net	507	375
Other current liabilities	2,893	3,201
Total current liabilities	49,822	54,470
Revolver	77,000	80,251
Long-term debt, net of current portion	20,589	20,711
Capital lease obligations, net of current portion	17	30
Acquisition earn-out contingencies	626	4,317
Deferred income taxes, net	11,218	10,184
Other liabilities	5,894	5,227
Total liabilities	165,166	175,190
Equity:		
Serial preferred stock; 221,756 shares authorized; none outstanding	-	-
Common stock, no par; 25,000,000 shares authorized; 15,321,356 shares and 15,297,151 shares issued and outstanding	-	-
Additional paid-in capital	101,211	101,435
Retained earnings	147,992	129,013
Accumulated other comprehensive income	9,715	12,569
Total equity	258,918	243,017
Total liabilities and shareholders' equity	\$ 424,084	\$ 418,207

See accompanying notes to consolidated condensed financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES**CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY****FOR SIX MONTHS ENDED SEPTEMBER 30, 2012 AND 2011****(UNAUDITED)**

	Shares of Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
(Amounts in thousands, except share amounts)					
Balance, March 31, 2011	14,989,675	\$ 93,608	\$ 101,309	\$ 14,152	\$ 209,069
Net income			14,664	-	14,664
Currency translation adjustment			-	(287)	(287)
Non-cash equity based compensation		2,500	-	-	2,500
Amounts from exercise of stock options	244,828	3,902	-	-	3,902
Tax benefit from exercise of stock options		653	-	-	653
Purchases of company stock	(229,911)	(6,505)	-	-	(6,505)
Balance, September 30, 2011	15,004,592	\$ 94,158	\$ 115,973	\$ 13,865	\$ 223,996
Balance, March 31, 2012	15,297,151	\$ 101,435	\$ 129,013	\$ 12,569	\$ 243,017
Net income			18,979	-	18,979
Currency translation adjustment			-	(2,854)	(2,854)
Non-cash equity based compensation		2,244	-	-	2,244
Amounts from exercise of stock options	239,366	3,505	-	-	3,505
Tax benefit from exercise of stock options		1,027	-	-	1,027
Purchases of company stock	(215,161)	(7,000)	-	-	(7,000)
Balance, September 30, 2012	15,321,356	\$ 101,211	\$ 147,992	\$ 9,715	\$ 258,918

See accompanying notes to consolidated condensed financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

(Amounts in thousands)	Six months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 18,979	\$ 14,664
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,688	7,101
Non-cash equity based compensation	2,244	2,500
Acquisition earn-out adjustment	(3,722)	-
Impairment of asset held for sale	489	-
Deferred income taxes	(1,222)	752
Equity income in unconsolidated joint venture	(392)	(372)
Unconsolidated joint venture distributions	825	582
Net change in operating assets and liabilities:		
Accounts receivable, trade	(2,783)	939
Inventories	(1,486)	(2,476)
Prepaid expenses, other current assets and other receivables	1,813	1,211
Other assets	(773)	(977)
Accounts payable	(2,401)	(83)
Accrued expenses, accrued compensation, other current and other liabilities	2,246	(2,656)
Income taxes payable	(238)	(2,052)
Net cash provided by operating activities	22,267	19,133
Cash flows from investing activities:		
Purchases of property and equipment	(8,520)	(4,611)
Acquisition of business, net of cash acquired, and acquired intangible assets	(10,233)	(36,107)
Net cash used in investing activities	(18,753)	(40,718)
Cash flows from financing activities:		
Borrowings from revolver and short-term debt	10,797	37,000
Repayments of revolver and capital leases	(15,839)	(6,974)
Repayments of long-term debt	(55)	(143)
Purchase of treasury stock	(7,000)	(6,500)
Proceeds from exercise of options and employee stock purchase plan	3,505	3,902
Excess tax benefit from exercise of stock options	1,027	653
Net cash provided by (used in) financing activities	(7,565)	27,938
Net change in cash and cash equivalents	(4,051)	6,353
Effect of exchange rate changes on cash	(169)	(233)
Cash, beginning of year	32,725	20,860
Cash, end of period	\$ 28,505	\$ 26,980

Supplemental Cash Flow Information:

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Cash paid or received during the period for:

Interest paid	\$ (1,408)	\$ (905)
Income taxes paid	(5,369)	(3,655)
Income taxes refunded	-		75	

See accompanying notes to condensed consolidated financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

(Currency amounts in thousands, except share and per share amounts)

1. DESCRIPTION OF BUSINESS

Interim financial statements: The information presented as of September 30, 2012 and for the three and six months ended September 30, 2012 and 2011 is unaudited, and reflects all adjustments (consisting only of normal recurring adjustments) which Measurement Specialties, Inc. (the “Company,” “MEAS,” or “we”) considers necessary for the fair presentation of the Company’s financial position as of September 30, 2012, the results of its operations for the three and six months ended September 30, 2012 and 2011, and cash flows for the six months ended September 30, 2012 and 2011. The Company’s March 31, 2012 consolidated condensed balance sheet information was derived from the audited consolidated financial statements for the year ended March 31, 2012, which is included as part of the Company’s Annual Report on Form 10-K.

The consolidated condensed financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and the instructions to Form 10-Q and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended March 31, 2012, which are included as part of the Company’s Annual Report on Form 10-K.

Description of business: Measurement Specialties, Inc. is a global leader in the design, development and manufacture of sensors and sensor-based systems for original equipment manufacturers (“OEM”) and end users, based on a broad portfolio of proprietary technology and typically characterized by the MEAS brand name. We are a global business and we believe we have a high degree of diversity when considering our geographic reach, broad range of products, number of end-use markets and breadth of customer base. The Company is a multi-national corporation with fourteen primary manufacturing facilities strategically located in the United States, China, France, Ireland, Germany, Switzerland and Scotland, enabling the Company to produce and market globally a wide range of sensors that use advanced technologies to measure precise ranges of physical characteristics. These sensors are used for engine and vehicle, medical, general industrial, consumer and home appliance, military/aerospace, environmental water

monitoring, and test and measurement applications. The Company's products include sensors for measuring pressure, linear/rotary position, force, torque, piezoelectric polymer film sensors, custom microstructures, load cells, vibrations and acceleration, optical absorption, humidity, gas concentration, gas flow rate, temperature, fluid properties and fluid level. The Company's advanced technologies include piezoresistive silicon, polymer and ceramic piezoelectric materials, application specific integrated circuits, micro-electromechanical systems ("MEMS"), foil strain gauges, electromagnetic force balance systems, fluid capacitive devices, linear and rotational variable differential transformers, anisotropic magneto-resistive devices, electromagnetic displacement sensors, hygroscopic capacitive structures, ultrasonic measurement systems, optical measurement systems, negative thermal coefficient ("NTC") ceramic sensors, 3-6 DOF (degree of freedom) force/torque structures, complex mechanical resonators, magnetic reed switches, high frequency multipoint scanning algorithms, and high precision submersible hydrostatic level detection.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation: The consolidated condensed financial statements include the accounts of the Company and its wholly-owned subsidiaries (the "Subsidiaries"). All significant intercompany balances and transactions have been eliminated in consolidation.

The Company accounts for its 50 percent ownership interest in Nikkiso-THERM (“NT”), a joint venture in Japan and the Company’s one variable interest entity (“VIE”), under the equity method of accounting. Under the equity method of accounting, the Company does not consolidate the VIE but recognizes its proportionate share of the profits and losses of the unconsolidated VIE.

Use of estimates: The preparation of the consolidated condensed financial statements, in accordance with U.S. generally accepted accounting principles, 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. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, carrying amount and analysis of recoverability of property, plant and equipment, asset held for sale, acquired intangibles, goodwill, deferred tax assets, valuation allowances for receivables, inventories, income tax uncertainties and other contingencies, including acquisition earn-outs, and stock based compensation. Actual results could differ from those estimates.

Recently adopted accounting pronouncements: In June 2011, the FASB issued new accounting standards for reporting comprehensive income. The new accounting standards revise only the presentation of comprehensive income in financial statements and require that net income and other comprehensive income be reported either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Presentation of components of comprehensive income in the statements as changes in stockholders’ equity will no longer be allowed. In December 2011, the FASB issued an amendment to the new accounting standards for reporting comprehensive income with the Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive, which defers the changes that relate to the presentation of reclassification adjustments. These new reporting requirements were effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which is the Company’s 2013 fiscal year. Early adoption of the standard was permitted. The Company applied the new reporting requirements retrospectively effective April 1, 2012.

3. STOCK BASED COMPENSATION AND PER SHARE INFORMATION

Non-cash equity-based compensation expense for the three months ended September 30, 2012 and 2011 was \$1,388 and \$1,254, respectively, and for the six months ended September 30, 2012 and 2011 was \$2,244 and \$2,500, respectively. During the six months ended September 30, 2012, the Company granted 402,125 stock awards from the 2010 Equity Incentive Plan (the “2010 Plan”). The estimated fair value of stock options and restricted stock units granted during the six months ended September 30, 2012 approximated \$5,062, net of expected forfeitures and is being recognized over the respective vesting periods. During the three and six months ended September 30, 2012, the Company recognized \$816 and \$955, respectively, of expense related to these stock awards.

The Company has five share-based compensation plans for which equity awards are currently outstanding. These plans are administered by the compensation committee of the Board of Directors, which approves grants to individuals

eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions, performance measures, and other provisions of the award. The Chief Executive Officer can also grant individual awards up to certain limits as approved by the compensation committee. Awards are generally granted based on the individual's performance. Terms for stock option awards include pricing based on the closing price of the Company's common stock on the award date, and generally vest over three to five year requisite service periods using a graded vesting schedule or subject to performance targets established by the compensation committee. Shares issued under stock option plans are newly issued common stock. Readers should refer to Note 13 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2012 for additional information related to the five share-based compensation plans under which awards are currently outstanding.

The Company uses the Black-Scholes-Merton option pricing model to estimate the fair value of equity-based awards with the following assumptions for the indicated periods.

	Three months ended September 30, 2012		2011		Six months ended September 30, 2012		2011	
Dividend yield	-		-		-		-	
Expected volatility	61.1	%	74.1	%	60.8	%	74.1	%
Risk free interest rate	0.7	%	1.3	%	0.7	%	1.3	%
Expected term after vesting (in years)	2.0		2.0		2.0		2.0	
Weighted-average grant-date fair value	\$ 15.60		\$ 31.90		\$ 15.49		\$ 31.90	

The assumptions above are based on multiple factors, including historical exercise patterns of employees with respect to exercise and post-vesting employment termination behaviors, expected future exercise patterns for these employees and the historical volatility of our stock price. The expected term of options granted is derived using company-specific, historical exercise information and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

During the six months ended September 30, 2012, a total of 239,366 stock awards were exercised yielding \$3,505 in cash proceeds and excess tax benefit of \$1,027 recognized as additional paid-in capital. At September 30, 2012, there was \$6,046 of unrecognized compensation cost adjusted for estimated forfeitures related to share-based payments, which is expected to be recognized over a weighted-average period of approximately 1.24 years.

Per share information: Basic and diluted per share calculations are based on net income. 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, less the shares that may be repurchased with the funds received from their exercise. Outstanding awards relating to approximately 344,634 and 415,098 weighted shares were excluded from the calculation for the three months ended September 30, 2012 and 2011, respectively, and outstanding awards relating to approximately 214,823 and 418,525 weighted shares were excluded from the calculation for the six months ended September 30, 2012 and 2011, as the impact of including such awards in the calculation of diluted earnings per share would have had an anti-dilutive effect.

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

	Net income (Numerator)	Weighted Average Shares in thousands (Denominator)	Per-Share Amount
Three months ended September 30, 2012:			
Basic per share information	\$ 10,406	15,376	\$ 0.68
Effect of dilutive securities	-	762	(0.04)
Diluted per-share information	\$ 10,406	16,138	\$ 0.64

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Three months ended September 30, 2011:

Basic per share information	\$ 6,656	15,093	\$ 0.44
Effect of dilutive securities	-	817	(0.02)
Diluted per-share information	\$ 6,656	15,910	\$ 0.42

Six months ended September 30, 2012:

Basic per share information	\$ 18,979	15,347	\$ 1.24
Effect of dilutive securities	-	799	(0.06)
Diluted per-share information	\$ 18,979	16,146	\$ 1.18

Six months ended September 30, 2011:

Basic per share information	\$ 14,664	15,068	\$ 0.97
Effect of dilutive securities	-	901	(0.05)
Diluted per-share information	\$ 14,664	15,969	\$ 0.92

4. INVENTORIES

Inventories are valued at the lower of cost or market (“LCM”) using the first-in first-out method. Inventories and inventory reserves for slow-moving, obsolete and lower of cost or market exposures at September 30, 2012 and March 31, 2012 are summarized as follows:

	September 30, 2012	March 31, 2012
Raw Materials	\$ 31,862	\$ 30,419
Work-in-Process	10,320	11,929
Finished Goods	20,911	19,613
	63,093	61,961
Inventory Reserves	(4,368)	(4,257)
	\$ 58,725	\$ 57,704

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. Property, plant and equipment are summarized as follows:

	September 30, 2012	March 31, 2012	Useful Life
Production equipment and tooling	\$ 65,256	\$ 60,144	3-10 years
Building and leasehold improvements	34,095	26,390	39 to 45 years or lesser of useful life or remaining term of lease
Furniture and equipment	16,530	15,890	3-10 years
Construction-in-progress	3,925	12,943	
Total	119,806	115,367	
Less: accumulated depreciation and amortization	(57,183)	(54,883)	
	\$ 62,623	\$ 60,484	

Included in construction in progress at March 31, 2012 and September 30, 2012 was approximately \$8,375 and \$243, respectively, related to the construction of new facilities in France and China. Total depreciation expense was \$2,243 and \$2,129 for the three months ended September 30, 2012 and 2011, respectively. Total depreciation expense was \$4,551 and \$4,236 for the six months ended September 30, 2012 and 2011, respectively. Property and equipment included \$43 and \$60 in capital leases at September 30, 2012 and March 31, 2012, respectively.

6. ACQUISITIONS, ACQUIRED INTANGIBLES AND ASSET HELD FOR SALE

Acquisitions: The Company continually evaluates potential acquisitions that either strategically fit with the Company's existing portfolio or expand the Company's portfolio into new and attractive business areas. The Company has completed a number of acquisitions that have been accounted for as purchases and have resulted in the recognition of goodwill in the Company's financial statements. This goodwill arises because the purchase prices for these businesses reflect a number of factors, including the future earnings and cash flow potential of these businesses, and other factors at which similar businesses have been purchased by other acquirers, the competitive nature of the process by which the Company acquired the business, and the complementary strategic fit and resulting synergies these businesses bring to existing operations.

Goodwill balances presented in the consolidated condensed balance sheets of foreign acquisitions are translated at the exchange rate in effect at each balance sheet date; however, opening balance sheets used to calculate goodwill and acquired intangible assets are based on purchase date exchange rates, except for earn-out payments, which are recorded at the exchange rates in effect on the date the earn-out is accrued. The following table shows the roll forward of goodwill reflected in the financial statements for the six months ended September 30, 2012:

Accumulated goodwill	\$ 147,808
Accumulated impairment losses	(3,353)
Balance March 31, 2012	144,455
Attributable to 2012 acquisitions	661
Attributable to 2013 acquisitions	3,831
Effect of foreign currency translation	196
Balance September 30, 2012	\$ 149,143

The following briefly describes the Company's acquisitions since March 31, 2011.

Eureka: On July 8, 2011, the Company acquired certain assets of Eureka Environmental, Inc. ("Eureka"), a sensor company based in Austin, Texas, for \$2,250. The transaction was funded from available cash on hand. Eureka manufactures a range of multi-probe pressure sensors mainly used for monitoring water quality. The water monitoring industry is large and a significant growth opportunity for the Company. The sellers have the potential to receive additional amounts in the form of a contingent payment based on certain earnings thresholds through calendar 2013, for which the Company initially recorded as part of purchase price the fair value estimate of \$2,100. During the three months ended September 30, 2012, the Company determined that Eureka's earnings were expected to be below initially estimated earn-out levels, as a result of changes in certain assumptions based on current economic and market conditions in the water monitoring industry. Accordingly, the Company recorded a fair value adjustment of \$1,883, decreasing the acquisition earn-out liability to \$309, and recognized the adjustment in the Consolidated Condensed Statements of Operations.

Celesco: On September 30, 2011, the Company completed the acquisition of all of the capital stock of Transducer Controls Corporation, a sensor company doing business as Celesco ("Celesco") based in Chatsworth, California, for \$37,375, including an estimated \$2,375 in acquired cash. The purchase price was subsequently increased by \$220 based on final calculations of established working capital levels. The transaction was funded from borrowings under the Company's Senior Secured Credit Facility, as defined in Note 8 below. Celesco is a leading supplier to OEMs of a range of position sensors, including short and long stroke string pot, linear potentiometer and rotary sensors. During the three months ended September 30, 2012, the Company recorded approximately \$753 in adjustments to goodwill mainly related to income taxes to finalize purchase price allocation for the Celesco acquisition within the permitted measurement period.

Gentech: On October 31, 2011, the Company completed the acquisition of all of the capital stock of Timesquest Limited, a holding company and the sole shareholder of Gentech International Limited ("Gentech"), for £6,500 or approximately \$10,500, net of cash acquired, based on foreign currency exchange rates at the date of the acquisition. The transaction was funded from borrowings under the Company's Senior Secured Credit Facility. Gentech is a level sensor and non-contact level switch company based in Ayrshire, Scotland. The seller can earn up to an additional £1,500 or approximately \$2,400 if certain sales performance goals are achieved for the two year period ending December 31, 2013, for which the Company initially recorded as part of purchase price a fair value estimate of £1,387 or approximately \$2,200 based on exchange rates at the date of acquisition. During the three months ended September 30, 2012, the Company determined that Gentech's sales were expected to be below initially estimated

earn-out levels as a result of changes in certain assumptions based on current sales trends. Accordingly, the Company recorded a fair value adjustment of £1,171 or approximately \$1,839, decreasing the acquisition earn-out liability to £216 or approximately \$339, and recognized the adjustment in the Consolidated Condensed Statements of Operations. The acquisition of Gentech is expected to allow the Company to compete in the urea tank market with combined level and quality sensors. The purchase price allocation for the Gentech acquisition is subject to certain adjustments, including for income taxes, which will be finalized in the permitted measurement period.

Cosense: On April 2, 2012, the Company acquired the assets of Cosense, Inc. (“Cosense”), a Long Island, New York based manufacturer of ultrasonic sensors and switches used in semiconductor, medical, aerospace and industrial applications for \$11,500. The Company paid \$10,013 at close in cash from a combination of available cash on hand and from borrowings under the Company’s Senior Secured Credit Facility, and the Company will pay an additional \$1,500 on April 2, 2013, subject to offset for certain indemnification rights. The acquisition of Cosense provides the Company with an ultrasonic sensor used for single-point, multi-point and continuous liquid level measurement, along with entrained bubble detection, which is considered an innovative solution complementary to the Company’s existing product offering, particularly within the high purity semiconductor, medical infusion pump and commercial aerospace markets. For the six months ended September 30, 2012, approximately \$3,972 in net sales, approximately \$495 in net income and transaction related costs of approximately \$10 related to Cosense were recorded as a component of selling, general and administrative expenses in the Company’s consolidated condensed financial statements. The purchase price allocation for the Cosense acquisition is subject to certain adjustments and will be finalized within the permitted measurement period. The Company’s preliminary purchase price allocation related to the Cosense acquisition is as follows:

Assets:	
Inventory	\$470
Plant and equipment	30
Acquired intangible assets	7,155
Goodwill	3,831
Total purchase price	11,486
Deferred acquisition payment	(1,473)
Cash paid	\$10,013

Asset held for sale: The Company completed the consolidation of the former PSI facility into the existing MEAS Hampton facility during the quarter ended June 30, 2011. The PSI facility is no longer utilized for manufacturing and is held for sale. Accordingly, the former PSI facility is classified as an asset held for sale in the consolidated condensed balance sheet, since it meets the held for sale criteria under the applicable accounting guidelines. Based on continued softening of the real-estate market in Hampton, Virginia, the Company re-assessed the market value of the asset held for sale and as a result, the Company recorded an impairment charge of \$489 during the three months ended September 30, 2012 to write-down the asset to its estimated fair value. The carrying value of the former PSI facility is \$940 as of September 30, 2012, and approximates fair value less cost to sell.

Acquired intangible assets: In connection with all acquisitions, the Company acquired certain identifiable intangible assets, including customer relationships, proprietary technology, patents, trade-names, order backlogs and covenants-not-to-compete. Additionally, the Company has purchased certain identifiable intangible assets as asset acquisitions.

Sentelligence: On August 31, 2011, the Company acquired a license to certain intellectual property rights related to fluid property sensors utilizing optical spectral technology for \$1,717 through a 10 year license agreement with Sentelligence, Inc. The Company recorded the \$1,717 payment as an acquired intangible asset subject to amortization

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over the life of the license agreement. Additionally, the license agreement includes annual royalty payments based on a percentage of net sales with certain annual minimum royalty requirements to maintain exclusive rights under the license agreement. As part of the cost of the intellectual property, the Company initially recorded \$617 for the present value of the minimum royalty liability.

The gross amounts and accumulated amortization, along with the range of amortizable lives, are as follows:

	Weighted-Average Life in years	September 30, 2012			March 31, 2012		
		Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Amortizable intangible assets:							
Customer relationships	10	\$62,346	\$ (23,604)	\$38,742	\$58,735	\$ (21,547)	\$37,188
Patents	15	3,946	(1,863)	2,083	4,058	(1,781)	2,277
Tradenames	2	2,525	(2,490)	35	2,562	(2,428)	134
In-process research & development	Indefinite	-	-	-	230	-	230
Backlog	1	5,159	(5,159)	-	4,910	(4,910)	-
Covenants-not-to-compete	3	1,220	(1,097)	123	1,202	(1,071)	131
Proprietary technology	11	14,661	(3,606)	11,055	12,469	(3,051)	9,418
		\$89,857	\$ (37,819)	\$52,038	\$84,166	\$ (34,788)	\$49,378

Amortization expense for acquired intangible assets for the three months ended September 30, 2012 and 2011 was \$1,987 and \$1,357, respectively, and amortization expense for the six months ended September 30, 2012 and 2011 was \$3,997 and \$2,675, respectively. Annual amortization expense for the years ending September 30 is estimated as follows:

Year	Amortization Expense
2013	\$ 6,590
2014	6,156
2015	6,079
2016	5,865
2017	5,652
Thereafter	21,696
	\$ 52,038

Pro forma Financial Data (Unaudited): The following represents the Company's pro forma consolidated condensed income from continuing operations, net of income taxes, for the three and six months ended September 30, 2012 and 2011, based on purchase accounting information assuming the Eureka, Celesco, Gentech and Cosense acquisitions occurred as of April 1, 2011, giving effect to purchase accounting adjustments. The pro forma data is for informational purposes only and may not necessarily reflect results of operations had the acquired companies been operated as part of the Company since April 1, 2011.

	Three months ended		Six months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 87,758	\$ 81,396	\$ 176,371	\$ 167,547
Net income	\$ 10,532	\$ 7,957	\$ 19,226	\$ 17,812
Net income per share:				
Basic	\$ 0.69	\$ 0.53	\$ 1.25	\$ 1.18
Diluted	\$ 0.65	\$ 0.50	\$ 1.19	\$ 1.12

7. FAIR VALUE MEASUREMENTS:

Accounting standards define fair value based on an exit price model, establish a framework for measuring fair value where the Company's assets and liabilities are required to be carried at fair value and provide for certain disclosures related to the valuation methods used within a valuation hierarchy as established within the accounting standards. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in

active markets, quoted prices for identical or similar assets in markets that are not active, or other observable characteristics for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on the Company's assumptions. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

A summary of financial assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2012 and March 31, 2012 are as follows:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
September 30, 2012				
Liabilities:				
Foreign currency exchange contracts	\$ -	\$ (191)	\$ -	\$(191)
Acquisition earn-out contingencies	-	-	626	626
March 31, 2012				
Assets:				
Foreign currency exchange contracts	\$ -	\$ 11	\$ -	\$11
Liabilities:				
Acquisition earn-out contingencies	-	-	4,317	4,317

The table below provides a reconciliation of the fair value of the acquisition earn-out contingencies measured on a recurring basis for which the Company has designated as Level 3:

Beginning April 1, 2012	\$4,317
Changes in fair value	(3,722)
Effect of foreign currency translation	31
Balance at September 30, 2012	\$626

The foreign currency exchange contracts do not qualify for hedge accounting, and as a result, changes in the fair value of the currency swap are reflected in the accompanying consolidated condensed statements of operations. The fair value of the Company's foreign currency contracts was based on Level 2 measurements in the fair value hierarchy. The fair value of the foreign currency contracts is based on forward exchange rates relative to current exchange rates which were obtained from independent financial institutions reflecting market quotes. The fair value of the acquisition earn-out contingencies is determined using a modeling technique based on significant unobservable inputs calculated using a probability-weighted income approach. Key assumptions include discount rates for present value factor of 16% for Eureka and 3.36% for Gentech, which are based on industry specific weighted average cost of capital, adjusted for, among other things, time and risk, as well as forecasted annual earnings before interest, taxes, depreciation and amortization of \$1,039 for Eureka and forecasted annual revenues of £10,800 for Gentech over the life of the earn-outs. The estimated fair value of acquisition earn-out contingencies could differ significantly from actual amounts. Adjustments to the fair value of earn-outs are recorded to earnings with that portion of the adjustment relating to the time value of money as interest expense and the non-interest portion of the change in earn-outs as a separate non-operating item in the statement of operations. During the three months ended September 30, 2012, as a result of the assessment of actual and projected earnings and sales scenarios, the Company determined that Eureka's earnings and Gentech's sales were expected to be below originally estimated earn-out levels. Accordingly, the Company recorded fair value adjustments of \$1,883 and \$1,839 decreasing the acquisition earn-out liabilities for Eureka and Gentech, respectively, and recognized the adjustments in the Consolidated Condensed Statements of Operations.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the six months ended September 30, 2012.

Fair Value of Financial Instruments: In addition to the fair value disclosure requirements related to financial instruments carried at fair value, accounting standards require interim disclosures regarding the fair value of all of the Company's financial instruments. The methods and significant assumptions used to estimate the fair value of financial instruments and any changes in methods or significant assumptions from prior periods are also required to be disclosed.

The fair values and carrying amounts of other financial instruments as of September 30, 2012 and March 31, 2012 are as follows:

	September 30, 2012		March 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
Short-term borrowings and notes payable	\$-	\$-	\$1,867	\$1,867
Capital leases	43	43	60	60
Revolver	77,000	77,000	80,251	80,251
Term debt	20,750	20,750	20,834	20,834

For promissory notes payable, capital lease obligations, and long-term debt, the fair value is determined as the present value of expected future cash flows discounted at the current interest rate, which approximates rates currently offered by lending institutions for loans of similar terms and comparable maturities to companies with comparable credit risk. These are considered Level 2 inputs. The fair value of the revolver approximates carrying value due to the variable interest nature of the debt. There were no changes in the methods or significant assumptions to estimate fair value of the Company's financial instruments from prior periods.

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition. That is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. No circumstances were identified, including evidence of impairment, during the six months ending September 30, 2012, except for the triggering event requiring an impairment analysis for asset held for sale for which the Company recorded an impairment charge of \$489 during the three months ended September 30, 2012 to write-down an asset held for sale to its estimated fair value, less cost to sell. The fair value measurement of this asset was determined using relevant market data, which are classified as Level 2 inputs.

Derivative instruments and risk management: The Company is exposed to market risks from changes in interest rates, commodities, credit and foreign currency exchange rates, which could impact its results of operations and financial condition. The Company attempts to address its exposure to these risks through its normal operating and financing activities. In addition, the Company's relatively broad-based business activities help to reduce the impact that volatility in any particular area or related areas may have on its operating results as a whole. Readers should refer to Note 7 in the Annual Report for the fiscal year ended March 31, 2012 for additional information related to the Company's exposures to market risks for interest rates, commodities and credit.

Foreign Currency Exchange Rate Risk: Foreign currency exchange rate risk arises from the Company's investments in subsidiaries owned and operated in foreign countries, as well as from transactions with customers in countries outside the U.S. and transactions denominated in currencies other than the applicable functional currency.

The effect of a change in currency exchange rates on the Company's net investment in international subsidiaries is reflected in the "accumulated other comprehensive income" component of shareholders' equity. The Company does not

hedge the Company's net investment in subsidiaries owned and operated in countries outside the U.S.

Although the Company has a U.S. dollar functional currency for reporting purposes, it has manufacturing and operating sites throughout the world and a large portion of its sales are generated in foreign currencies. A substantial portion of the Company's revenue is priced in U.S. dollars, and most of its costs and expenses are priced in U.S. dollars, with the remaining priced in Chinese RMB, Euros, Swiss francs and British pounds. Sales by subsidiaries operating outside of the United States are translated into U.S. dollars using exchange rates effective during the respective period. As a result, the Company is exposed to movements in the exchange rates of various currencies against the U.S. dollar. Accordingly, the competitiveness of its products relative to products produced locally (in foreign markets) may be affected by the performance of the U.S. dollar compared with that of our foreign customers' currencies. Refer to Note 10, Segment Information, for details concerning net sales invoiced from our facilities within the U.S. and outside of the U.S., as well as long-lived assets. Therefore, both positive and negative movements in currency exchange rates against the U.S. dollar will continue to affect the reported amount of sales, profit, and assets and liabilities in the Company's consolidated condensed financial statements.

During the six months ended September 30, 2012, the RMB did not fluctuate significantly relative to the U.S. dollar. The RMB appreciated approximately 3.6% and 4.0%, respectively, relative to the U.S. dollar during fiscal 2012 and 2011. The Chinese government no longer pegs the RMB to the U.S. dollar, but established a currency policy letting the RMB trade in a narrow band against a basket of currencies. The Company has more expenses in RMB than sales (i.e., short RMB position), and as such, if the U.S. dollar weakens relative to the RMB, our operating profits will decrease. We continue to consider various alternatives to hedge this exposure, and we are attempting to manage this exposure through, among other things, forward purchase contracts, pricing and monitoring balance sheet exposures for payables and receivables.

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