

Edgar Filing: MEASUREMENT SPECIALTIES INC - Form 10-Q

MEASUREMENT SPECIALTIES INC

Form 10-Q

February 04, 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 DECEMBER 31, 2003.

OR

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

COMMISSION FILE NUMBER: 1-11906

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

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

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

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 No X  
--- ---

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes  
of common stock, as of the latest practicable date: 12,648,250 shares of

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common stock, no par value per share, at February 2, 2004.

|          |   |    |
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ITEM 1. FINANCIAL STATEMENTS

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

|                                     | FOR THE THREE MONTHS<br>ENDED DECEMBER 31, |           | FOR THE<br>ENDED |
|-------------------------------------|--|-----------|------------------|
|                                     | 2003                                       | 2002      | 2003             |
| Net sales                           | \$ 31,869                                  | \$ 28,351 | \$ 86,4          |
| Cost of goods sold                  | 17,823                                     | 17,211    | 47,5             |
| Gross profit                        | 14,046                                     | 11,140    | 38,9             |
| Operating expenses (income):        |  |           |                  |
| Selling, general and administrative | 8,018                                      | 8,807     | 23,0             |
| Litigation expense                  | 400  | -         | 4                |

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|  |            |            |          |
|--|------------|------------|----------|
| Non-cash equity based compensation                         | 3,046      | -          | 4,9      |
| Research and development                                   | 850        | 773        | 2,6      |
| Customer funded development                                | -          | (14)       |          |
| Restructuring costs  | 545        | 96         | 5        |
| Total operating expenses                                   | 12,859     | 9,662      | 31,5     |
| Operating income (loss)                                    | 1,187      | 1,478      | 7,4      |
| Interest expense, net                                      | 22         | 424        | 3        |
| Gain on sale of Wafer Fab                                  | -          | -          |          |
| Other expense (income)                                     | 51         | (82)       |          |
| Income (loss) from continuing operations before income tax | 1,114      | 1,136      | 7,0      |
| Income tax   | 226        | 98         | 7        |
| Income (loss) from continuing operations                   | 888        | 1,038      | 6,2      |
| Discontinued operations:                                   |            |            |          |
| Income (loss) from discontinued units                      | -          | -          | 1        |
| Gain on sale of Terrillon                                  | -          | 570        |          |
| Income (loss) from discontinued units                      | -          | 570        | 1        |
| Net income (loss)  | \$ 888     | \$ 1,608   | \$ 6,3   |
| Income (loss) per common share - Basic                     |            |            |          |
| Income (loss) from continuing operations                   | \$ 0.07    | \$ 0.08    | \$ 0.    |
| Income (loss) from discontinued units                      | -          | 0.05       | 0.       |
| Net income (loss)  | \$ 0.07    | \$ 0.13    | \$ 0.    |
| Income (loss) per common share - Diluted                   |            |            |          |
| Income (loss) from continuing operations                   | \$ 0.06    | \$ 0.08    | \$ 0.    |
| Income (loss) from discontinued units                      | -          | 0.05       | 0.       |
| Net income (loss)  | \$ 0.06    | \$ 0.13    | \$ 0.    |
| Weighted average shares outstanding - Basic                | 12,402,445 | 11,912,958 | 12,234,8 |
| Weighted average shares outstanding - Diluted              | 14,004,490 | 12,230,213 | 13,905,9 |

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

DECEMBER 31,      MARCH 31,  
2003                      2003

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| -----   |           |           |
|---|-----------|-----------|
| ASSETS  |           |           |
| CURRENT ASSETS:   |           |           |
| Cash and cash equivalents   | \$ 5,503  | \$ 2,694  |
| Accounts receivable, trade, net of allowance for doubtful accounts of \$413, and \$1,038 respectively | 15,126    | 10,549    |
| Inventories   | 12,906    | 14,275    |
| Prepaid expenses and other current assets   | 2,032     | 1,885     |
|   | -----     | -----     |
| Total current assets  | 35,567    | 29,403    |
|   | -----     | -----     |
| PROPERTY AND EQUIPMENT, NET   | 10,888    | 11,818    |
|   | -----     | -----     |
| OTHER ASSETS:   |           |           |
| Goodwill  | 4,191     | 4,191     |
| Other assets  | 581       | 756       |
|   | -----     | -----     |
|   | 4,772     | 4,947     |
|   | -----     | -----     |
| Total assets  | \$ 51,227 | \$ 46,168 |
|   | =====     | =====     |

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|  | DECEMBER 31,<br>2003 | MARCH 31,<br>2003 |
|--|----------------------|-------------------|
| -----  |                      |                   |
| LIABILITIES AND SHAREHOLDERS' EQUITY           |                      |                   |
| CURRENT LIABILITIES:                           |                      |                   |
| Current portion of long-term debt              | \$ -                 | \$ 3,260          |
| Accounts payable                               | 8,101                | 9,846             |
| Accrued compensation                           | 2,551                | 1,207             |
| Accrued expenses and other current liabilities | 6,165                | 5,744             |
| Accrued litigation expenses                    | 1,425                | 3,550             |
|  | -----                | -----             |
| Total current liabilities                      | 18,242               | 23,607            |
| OTHER LIABILITIES:                             |                      |                   |
| Long-term debt--related party                  | -                    | 2,000             |
| Other liabilities                              | 1,666                | 1,615             |
|  | -----                | -----             |
| Total liabilities                              | 19,908               | 27,222            |
|  | -----                | -----             |
| SHAREHOLDERS' EQUITY                           |                      |                   |

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Serial preferred stock; 221,756 shares authorized; none outstanding  
 Common stock, no par; 20,000,000 shares authorized; 12,466,950  
 and 11,922,958 shares issued and outstanding, respectively

|                                      |           |           |
|--------------------------------------|-----------|-----------|
|                                      | 5,502     | 5,502     |
| Additional paid-in capital           | 49,185    | 43,197    |
| Accumulated deficit                  | (23,297)  | (29,683)  |
| Accumulated other comprehensive loss | (71)      | (70)      |
|                                      |           |           |
| Total shareholders' equity           | 31,319    | 18,946    |
|                                      |           |           |
|                                      | \$ 51,227 | \$ 46,168 |
|                                      |           |           |

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|   | Common<br>stock | Additional<br>paid-in<br>capital | Accumulated<br>Deficit | Other<br>Comprehensive<br>Loss |
|---|-----------------|----------------------------------|------------------------|--------------------------------|
|   |                 |                                  |                        |                                |
| BALANCE, APRIL 1, 2002                    | \$ 5,502        | \$ 42,346                        | \$ (20,586)            | \$ (435)                       |
| Net loss                                  | -               | -                                | (5,136)                | -                              |
| Currency translation adjustment           | -               | -                                | -                      | 374                            |
| Comprehensive income                      | -               | -                                | -                      | -                              |
| Warrants issued for professional services | -               | 153                              | -                      | -                              |
| Warrants issued for debt                  | -               | 452                              | -                      | -                              |
| Proceeds from exercise of stock options   | -               | 117                              | -                      | -                              |
|   |                 |                                  |                        |                                |
| BALANCE, DECEMBER 31, 2002                | 5,502           | 43,068                           | (25,722)               | (61)                           |
|   |                 |                                  |                        |                                |
| Net loss                                  | -               | -                                | (3,961)                | -                              |
| Currency translation adjustment           | -               | -                                | -                      | (9)                            |
| Comprehensive income                      | -               | -                                | -                      | -                              |
| Warrants issued for professional services | -               | 112                              | -                      | -                              |
| Proceeds from exercise of stock options   | -               | 17                               | -                      | -                              |
|   |                 |                                  |                        |                                |
| BALANCE, APRIL 1, 2003                    | 5,502           | 43,197                           | (29,683)               | (70)                           |
|   |                 |                                  |                        |                                |
| Net income                                | -               | -                                | 6,386                  | -                              |
| Currency translation adjustment           | -               | -                                | -                      | (1)                            |
| Comprehensive income                      | -               | -                                | -                      | -                              |
| Warrants issued for non-cash              | -               | 4,954                            | -                      | -                              |

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|  |          |           |             |         |
|--|----------|-----------|-------------|---------|
| equity based compensation                |          |           |             |         |
| Proceeds from exercise of stock options  | -        | 440       | -           | -       |
| Tax benefit from stock options           | -        | 90        | -           | -       |
| Proceeds from exercise of stock warrants | -        | 504       | -           | -       |
| BALANCE, DECEMBER 31, 2003               | \$ 5,502 | \$ 49,185 | \$ (23,297) | \$ (71) |

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|   | FOR THE NINE MONTHS ENDED D |         |
|---|-----------------------------|---------|
|   | 2003                        |         |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                             |         |
| Net Income (Loss)   | \$                          | 6,386   |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities income: |                             |         |
| Income from discontinued operations   |                             | -       |
| Depreciation and amortization   |                             | 2,124   |
| Assets write-off  |                             | 175     |
| Deferred rent   |                             | (20)    |
| Warrants issued for professional services   |                             | -       |
| Amortization of debt discount   |                             | -       |
| Provision for bad debt  |                             | 161     |
| Non-cash equity based compensation  |                             | 4,954   |
| Gain on sale of Wafer Fab   |                             | -       |
| Tax benefit from stock options  |                             | 90      |
| Gain on disposition of discontinued units   |                             | -       |
| Net changes in operating assets and liabilities:  |                             |         |
| Accounts receivable, trade  |                             | (4,738) |
| Inventories   |                             | 1,368   |
| Prepaid expenses and other current assets   |                             | (147)   |
| Other assets  |                             | 175     |
| Accounts payable  |                             | (1,744) |
| Accrued litigation costs  |                             | (2,125) |
| Accrued expenses and other liabilities  |                             | 1,836   |
| Net cash ( used in) provided by operating activities  |                             | 8,495   |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |                             |         |
| Purchases of property and equipment   |                             | (1,369) |
| Proceeds from sale of Wafer Fab   |                             | -       |
| Proceeds from sale of Terrailon   |                             | -       |
| Cash received from receiver   |                             | -       |
| Net cash (used in) provided by investing activities   |                             | (1,369) |
| CASH FLOWS FROM FINANCING ACTIVITIES:   |                             |         |

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|  |          |       |
|--|----------|-------|
| Borrowings under bank line of credit agreement                 | 3,000    |       |
| Borrowing under bridge loan                                    | -        |       |
| Repayment of capital lease obligations                         | -        |       |
| Repayments of debt   | (8,260)  |       |
| Warrants issued for debt                                       | -        |       |
| Proceeds from exercise of options and warrants                 | 944      |       |
|  | -----    | ----- |
| Net cash used in financing activities                          | (4,316)  |       |
|  | -----    | ----- |
| NET CHANGE IN CASH AND CASH EQUIVALENTS, CONTINUING OPERATIONS | 2,810    |       |
| Effect of exchange rates                                       | (1)      |       |
| Cash used for discontinued operations                          | -        |       |
| Cash and cash equivalents, beginning of period                 | 2,694    |       |
|  | -----    | ----- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                       | \$ 5,503 | \$    |
|  | =====    | ===== |
| Supplemental Cash Flow Information:                            |          |       |
| Cash paid during the period for:                               |          |       |
| Interest   | \$ 335   | \$    |
| Income taxes   | \$ 260   | \$    |

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(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 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, 2003. Operating results for the three and nine months ended December 31, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2004. 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, 2003.

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, 2003.

##### Description of business:

Measurement Specialties, Inc., a New Jersey corporation ("MSI" or the

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"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 a Sensor segment and a Consumer Products segment. The 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 and accelerometers. 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.

### Liquidity and Going Concern:

The Company is currently the defendant in several lawsuits, including a class action lawsuit. The Company is also the subject of a formal investigation being conducted by the Division of Enforcement of the United States Securities and Exchange Commission. Further, the United States Attorney for the District of New Jersey is conducting an inquiry into the matters being investigated by the SEC. (See Note 10)

The Company's cash and amounts available under the revolving credit facility may not be available or adequate to fund the amounts, if any, to be paid in settlement of, or for judgments related to, the Company's pending legal proceedings. Under the terms of its credit agreement, the Company is prohibited from making any cash payment in settlement of any litigation unless, after giving effect to such payment and for a period of 30 consecutive days prior thereto, availability under the credit facility is not less than \$1,500. Moreover, the Company is prohibited from making any cash payment in settlement of the class action lawsuit, the DeWalt litigation or the Hibernia litigation without the prior written consent of the lender under the Company's revolving credit facility. The Company settled the Hibernia lawsuit in November 2003, and made payment after receiving approval from its lender, Fleet Capital Corporation. (See Note 10).

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If the Company's cash and amounts available under the Company's revolving credit facility are not sufficient to satisfy the obligations discussed above, the Company may need to explore other fund raising alternatives, including the sale of assets or equity securities. No assurance, however, can be given that the Company will be able to successfully sell assets or stock, or, even if such transactions are possible, that they will be on terms reasonable to the Company, that they will enable the Company to satisfy its obligations or that such actions will be permitted under the Company's credit agreement. Additionally, any sale of equity securities will dilute existing shareholders and may be at prices that are substantially lower than current market prices. If the Company is unable to satisfactorily resolve its loss contingencies and does not obtain additional funds, the Company will likely be unable to continue operations.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements included in this report do not contain any adjustments that might be necessary if the Company is unable to continue as a going concern.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:



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### Principles of consolidation:

The consolidated financial statements include the accounts of MSI and its wholly-owned subsidiaries (the "Subsidiaries"): Measurement Limited ("ML"), organized in Hong Kong; Jingliang Electronics ("JL") (Shenzhen) Co. Ltd., organized in the People's Republic of China ("China"); IC Sensors Inc. ("IC Sensors"), a California corporation; Measurement Specialties, U.K. Limited ("Schaevitz UK"), organized in the United Kingdom; and Terrailon Holdings Limited, organized in Ireland, and its wholly-owned subsidiaries ("Terrailon"); all collectively referred to as the "Company." As discussed in Note 7, the Company placed Schaevitz UK in receivership in June 2002 and sold Terrailon in September 2002; accordingly, the results from these operations are reflected as discontinued operations. 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 nine months of the fiscal year ending March 31, 2004 or in the fiscal year ended March 31, 2003 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". The options were valued using the Black-Scholes option pricing model, using a risk free rate of 2.8% and 4.9%, volatility of 2.06 and 0.90, and an option life of five years for the options granted in fiscal years 2004 and 2003, respectively.

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|  | FOR THE THREE MONTHS ENDED<br>DECEMBER 31, |          | FOR THE NINE<br>MONTHS ENDED<br>DECEMBER 31, |
|--|--|----------|--|
|  | 2003                                       | 2002     | 2003   |
| Net income (loss), as reported   | \$ 888                                     | \$ 1,608 | \$ 6,386                                     |
| add: Stock-based employee compensation expense included<br>in reported net income, net of related tax effects                      | -  | -        | -  |
| Deduct: Total stock-based employee compensation under<br>fair value based method for awards granted,<br>net of related tax effects | (277)                                      | (371)    | (332)  |
| Pro forma net income (loss)  | \$ 611                                     | \$ 1,237 | \$ 6,054                                     |
| Net Income (loss) per share  |  |          |  |
| Basic-as reported  | \$ 0.07                                    | \$ 0.13  | \$ 0.52                                      |
| Basic Proforma   | 0.05                                       | 0.10     | 0.49   |
| Diluted- as reported   | 0.06                                       | 0.13     | 0.46   |
| Diluted proforma   | 0.04                                       | 0.10     | 0.44   |

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### Recent Accounting Pronouncements:

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.

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 3).

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### 3. RESTRUCTURING AND OTHER COSTS:

During the quarter ended March 31, 2002, management and the Board of Directors approved a plan of reduction of workforce and a reduction of operating capacity at certain locations. During the fiscal year ended March 31, 2003, the Company recorded restructuring and other costs of \$1,219, consisting of \$150 for severance, \$839 for lease termination, and \$230 for the write down of fixed assets. At March 31, 2003, the Company had an accrual of \$837 for lease

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termination costs. During the quarter ended December 31, 2003, the Company has reached verbal agreement to settle the Semex litigation and has provided an additional accrual of \$545 to cover the expected cost of this lease termination. (See Note 10). At December 31, 2003, the Company maintained an accrual of \$1,382 to cover the expected cost of lease termination, which is included in accrued expenses. The Company did not make any payments during the three and nine month periods ended December 31, 2003 related to these lease termination costs.

#### 4. INVENTORIES:

Inventories net, consists of the following:

|                 | DECEMBER 31,<br>2003 | MARCH 31,<br>2003 |  |
|-----------------|----------------------|-------------------|--|
|                 | -----                | -----             |  |
| RAW MATERIALS   | \$ 6,478             | \$ 6,930          |  |
| WORK-IN-PROCESS | 1,898                | 2,630             |  |
| FINISHED GOODS  | 4,530                | 4,715             |  |
|                 | -----                | -----             |  |
|                 | \$ 12,906            | \$ 14,275         |  |
|                 | =====                | =====             |  |

Inventory reserves were \$4,607 at December 31, 2003 and \$4,996 at March 31, 2003.

#### 5. LONG-TERM DEBT:

##### Current Revolving Credit Facility

On January 31, 2003, the Company entered into a \$15,000 revolving credit facility with Fleet Capital Corporation ("FCC"). The revolving credit facility is secured by a lien on substantially all of the Company's assets. Interest accrues on the principal amount of the Company's borrowings under this facility at a floating rate per year equal to the lesser of FCC'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 December 31, 2003, 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 December 31, 2003, there were no outstanding borrowings and the Company had the right to borrow \$9,846 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 three and nine month periods ended December 31, 2003, were approximately \$16 and \$45, respectively.

The revolving credit agreement requires the Company to meet certain financial covenants during the term of the revolving credit facility. In addition to certain affirmative and negative covenants, which include a restriction on the payment of dividends, the Company was required to maintain a borrowing

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availability of at least \$2,000 through the filing of its quarterly report on Form 10-Q for the three months ended June 30, 2003. This covenant expired on August 7, 2003. In addition, 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 taxes paid and minus capital expenditures, divided by the sum of scheduled principal and interest payments during that period. The Company is currently in compliance with all covenants in the agreement.

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For the quarter ended December 31, 2003, the weighted average short-term interest rate on the revolving credit facility was 5.0%. The Company did not have any borrowings under this agreement for the period from October 1, 2003 through December 31, 2003. The Company maintains a letter of credit for \$34 to guarantee the lease of its facility in Fairfield, New Jersey.

### Bridge Loan

On October 31, 2002, the Company received a \$9,300 bridge loan from Castletop Capital, L.P. ("Castletop"), a limited partnership controlled by Morton Topfer, Chairman of the Company's Board of Directors. The proceeds from this loan were used to repay all of the Company's obligations under its previous term loan and revolving credit facility. The loan was evidenced by a Senior Secured Note originally due January 31, 2003 and did not include a revolving credit facility. Interest on the note initially accrued at a rate of 7% per annum (subject to a 2% increase upon the occurrence of an event of default under the note). Castletop also received a warrant to purchase up to 297,228 shares of the Company's common stock for an exercise price equal to the average closing price of the Company's common stock on the American Stock Exchange for the first five trading days after October 31, 2002 (\$1.64 per share). This warrant had a term of 5 years. On June 26, 2003, Castletop exercised its warrant to purchase 297,228 shares of stock at an exercise price of \$1.64.

On October 31, 2002, the relative estimated fair value of the warrant of \$452 was recorded as debt discount, and was subsequently charged to interest expense over the life of the debt, originally due on January 31, 2003.

### Amendment to Bridge Loan

The Company used a portion of the proceeds from the FCC revolving credit facility to reduce the principal amount outstanding under the bridge loan to \$2,000. Also, in connection with the revolving credit facility transaction, the terms of the bridge loan were amended as follows:

- The maturity date of the Castletop note was extended to January 31, 2005;
- The security interest and rights of Castletop under the bridge loan agreement were subordinated to those of FCC; and
- The non-default interest rate under the bridge loan was increased to 11%.

There were no amendments to the warrant issued as part of the bridge loan transaction.

### Second Amendment to Bridge Loan

On April 11, 2003, the Company entered into a second amendment to the bridge loan to increase the aggregate principal amount of the Subordinated Note in favor of Castletop from \$2,000 to \$5,000. No other changes were made to the

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note. See Note 10, "Commitments and Contingencies". The additional borrowing was used to fund the \$3,200 renewal premium payable in connection with the renewal of the Company's Directors and Officers liability insurance coverage (which renewal premium represents a combination of the market premium for D&O coverage for the period from April 7, 2003 through April 7, 2004, plus the Company's contribution toward a potential settlement in the class action lawsuit). The revolving credit agreement prohibited the Company from prepaying the bridge loan before September 30, 2003. In September 2003, with authorization from FCC, the Company retired this facility by repaying the remaining \$5,000 in borrowings to Castletop.

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### 6. PROPERTY AND EQUIPMENT:

Property and equipment are summarized as follows:

|   | DECEMBER 31,<br>2003 | MARCH 31,<br>2003 | USEFUL LIFE       |
|---|----------------------|-------------------|-------------------|
| Production machinery and equipment              | \$ 14,254            | \$ 13,800         | 5-7 years         |
| Tooling costs                                   | 3,962                | 3,579             | 5-7 years         |
| Furniture and equipment                         | 5,132                | 4,922             | 3-10 years        |
| Leasehold improvements                          | 1,799                | 1,721             | Term of the lease |
| Construction in progress                        | 176                  | 283               |                   |
| Total   | 25,323               | 24,305            |                   |
| Less: accumulated depreciation and amortization | (14,435)             | (12,487)          |                   |
|   | \$ 10,888            | \$ 11,818         |                   |

Depreciation expense was \$670 and \$2,124 for the three and nine month periods ended December 31, 2003, and was \$725 and \$2,622 for the three and nine month periods ended December 31, 2002, respectively.

### 7. DISCONTINUED OPERATIONS, ASSETS AND LIABILITIES HELD FOR SALE, AND GAIN OR LOSS ON SALE OF ASSETS AND DISCONTINUED UNITS:

The Company sold all of the outstanding stock of Terrailon (previously a component of the Company's Consumer Products segment) in September 2002 and sold the assets, principally property and equipment, related to its IC Sensors silicon wafer fab manufacturing operations (previously a component of the Company's Sensor segment) in July 2002. The amounts for Terrailon on the consolidated statements of operations for the three and nine months ended December 31, 2002 have been reclassified as discontinued operations to reflect the disposal of this operating unit.

The Company placed its United Kingdom subsidiary, Schaevitz UK (previously a component of the Company's Sensor segment), into receivership on June 5, 2002 pursuant to the terms of a Mortgage Debenture dated February 28, 2001. The receiver's function was to dispose of Schaevitz UK's business and assets for the

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best price possible. The book debt recoveries and sale proceeds were applied in settlement of the receiver's remuneration, costs and expenses, the preferential creditors' claims (i.e., the claims of the Inland Revenue, Customs & Excise and employee claims up to certain statutory limits) and then to (i) claims by the Company's lenders in accordance with UK insolvency legislation (the Insolvency Act 1986) and (ii) priority arrangements. Schaevitz UK's landlord has a potential dilapidations claim of up to 350 Pounds Sterling (approximately \$638 United States dollars based on market exchange rates as of January 31, 2004) against Schaevitz UK that arose on the expiration of the lease of 543/544 Ipswich Road Trading Estate, Slough, Berkshire, England on June 23, 2002. The results of operations of Schaevitz UK are reflected as discontinued operations from April 1, 2002 through the June 5, 2002 date of liquidation. During the fiscal year ended March 31, 2003, the Company incurred approximately \$3,511 of costs and expenses in connection with the liquidation of Schaevitz UK, which consisted of write-down of prepaid pension costs of \$2,309 and receiver and other costs of \$1,202. The amount recovered from the liquidation was approximately \$1,176.

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In July 2002, the Company sold the assets (principally property and equipment) related to its silicon wafer fab manufacturing operation in Milpitas, CA to Silicon Microstructures, Inc. (SMI), a wholly owned subsidiary of Elmos Semiconductor AG. The wafer fab operation was formerly part of the Company's IC Sensors division. The price paid by SMI for the assets was approximately \$5,250, consisting of approximately \$3,370 in cash and \$1,880 in prepaid credit for products and services, subject to reduction under certain circumstances. Approximately \$900 of the cash purchase price was used to satisfy an outstanding equipment lease obligation. The prepaid credit for products and services, as utilized, is being accounted for as a reduction to cost of sales. The gain on this sale was approximately \$159, net of tax, and has been reflected in the Condensed Consolidated Statements of Operations as "Gain on Sale of Wafer Fab" of \$109 for the three months ended September 30, 2002, and an additional \$50 for the three months ended December 31, 2002.

In September 2002, the Company sold all of the outstanding stock of Terrailon Holdings Limited, a European manufacturer of branded consumer bathroom scales, to Fukuda S.a.r.l, an investment holding company incorporated in Luxembourg, for \$22,300. On January 24, 2003, the Company received \$1,384 of the funds that had been placed in escrow at the time of closing to secure certain of the Company's indemnification obligations. The estimated gain at the time of sale was approximately \$340, net of tax, and subject to further adjustments. As a result of final settlement of escrowed amounts, the Company recorded an additional gain of \$357, as certain amounts previously provided for were no longer required.

|                                     | FOR THE NINE MONTHS ENDED<br>DECEMBER 31, 2002 |                  |          |
|-------------------------------------|--|------------------|----------|
|                                     | TERRAILLON                                     | SCHAEVITZ,<br>UK | TOTAL    |
|                                     | -----  | -----            | -----    |
| Net sales                           | \$ 18,678                                      | \$ 905           | \$19,583 |
| Cost of goods sold                  | 13,244   | 617              | 13,861   |
|                                     | -----  | -----            | -----    |
| Gross profit                        | 5,434  | 288              | 5,722    |
| Operating expenses:                 |  |                  |          |
| Selling, general and administrative | 5,835  | 149              | 5,984    |
| Research and development            | -  | 68               | 68       |

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|                                       |          |            |            |
|---------------------------------------|----------|------------|------------|
| Restructuring costs                   | -        | 3,577      | 3,577      |
|                                       | -----    | -----      | -----      |
| Total operating expenses              | 5,835    | 3,794      | 9,629      |
| Operating income (loss)               | (401)    | (3,506)    | (3,907)    |
| Interest income (expense)             | (25)     | 2          | (23)       |
| Other income                          | 27       | (7)        | 20         |
|                                       | -----    | -----      | -----      |
| (Loss) before income taxes            | (399)    | (3,511)    | (3,910)    |
| Provision for income taxes            | -        | -          | -          |
|                                       | -----    | -----      | -----      |
| Net loss from discontinued operations | \$ (399) | \$ (3,511) | \$ (3,910) |
|                                       | =====    | =====      | =====      |

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8. 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. Diluted earnings per share are not presented in fiscal periods for which the results are antidilutive. Excluded from diluted earnings per share are approximately 183,030 equivalent shares for the nine month period ended December 31, 2002.

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

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

9. SEGMENT INFORMATION:

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

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 (see Note 12), and are focusing on selling our Consumer Products in 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:

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|                         | FOR THE THREE MONTHS ENDED<br>DECEMBER 31, |           | FOR THE NINE MONTHS ENDED<br>DECEMBER 31, |           |
|-------------------------|--|-----------|---|-----------|
|                         | 2003                                       | 2002      | 2003                                      | 2002      |
| Net sales               |  |           |   |           |
| Consumer Products       | \$ 17,108                                  | \$ 14,750 | \$ 42,697                                 | \$ 38,524 |
| Sensor                  | 14,761                                     | 13,601    | 43,772                                    | 40,112    |
|                         | 31,869                                     | 28,351    | 86,469                                    | 78,636    |
| Operating income (loss) |  |           |   |           |
| Consumer Products       | 3,731                                      | 2,068     | 8,524                                     | 1,412     |
| Sensor                  | 4,025                                      | 4,031     | 12,312                                    | 10,700    |
|                         | 7,756                                      | 6,099     | 20,836                                    | 12,112    |
| Unallocated expenses    | (6,569)                                    | (4,621)   | (13,422)                                  | (10,188)  |
|                         | 1,187                                      | 1,478     | 7,414                                     | 1,924     |



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|  |        |          |          |
|--|--------|----------|----------|
| Interest expense, net of interest income                   | 22     | 424      | 322      |
| Other (income)   | 51     | (82)     | 46       |
| Gain on sale of Wafer Fab                                  | -      | -        | -        |
|  | -----  |          | -----    |
| Income (loss) from continuing operations before income tax | 1,114  | 1,136    | 7,046    |
| Income Tax   | 226    | 98       | 772      |
|  | -----  |          | -----    |
| Income (loss) from continuing operations                   | 888    | 1,038    | 6,274    |
| Income (loss) from Discontinued Operations                 | -      | -        | 112      |
| Gain on sales of Terrailon                                 | -      | 570      | -        |
|  | -----  |          | -----    |
| Net Income(loss)   | \$ 888 | \$ 1,608 | \$ 6,386 |
|  | =====  |          | =====    |

|                   | DECEMBER 31,<br>2003 | MARCH 31,<br>2003 |
|-------------------|----------------------|-------------------|
|                   | -----                | -----             |
| Segment Assets    |                      |                   |
| Consumer Products | \$ 15,464            | \$ 11,478         |
| Sensor            | 33,905               | 34,391            |
| Unallocated       | 1,858                | 299               |
|                   | -----                | -----             |
| Total             | \$ 51,227            | \$ 46,168         |
|                   | =====                | =====             |

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10. COMMITMENTS AND CONTINGENCIES:

(Dollars in Thousands)

LITIGATION:

SECURITIES LITIGATION

On March 20, 2002, a class action lawsuit was filed on behalf of purchasers of the Company's common stock in the United States District Court for the District of New Jersey against the Company and certain of the Company's present and former officers and directors. The complaint was subsequently amended to include the underwriters of the Company's August 2001 public offering as well as the Company's former auditors. The lawsuit alleges violations of the federal securities laws. The lawsuit seeks an unspecified award of money damages. After March 20, 2002, nine additional similar class actions were filed in the same court. The ten lawsuits have been 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 have made a claim for indemnification under the underwriting agreement. On September 30, 2003, the court denied the Company's motion to dismiss this case. The Company is in active settlement discussions with the plaintiffs, however it cannot predict the ultimate outcome of these discussions.

The Company has Directors and Officers liability insurance that provides an

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aggregate of \$10,000 in coverage for the period during which this claim was filed (\$5,000 in primary coverage and \$5,000 in excess coverage). The Company's primary D&O insurance carrier initially denied coverage of this claim, which position the Company contested. After discussion, the insurer reversed its previous coverage position and agreed to participate in the defense and potential settlement of the class action lawsuit (subject to the \$5,000 policy limit). As part of the arrangement, the Company renewed its D&O coverage. The new policy provides for an aggregate of \$6,000 in coverage for the period from April 7, 2003 through April 7, 2004. The \$3,200 renewal premium represents a combination of the market premium for D&O coverage for this period plus the Company's contribution toward a potential settlement in the class action lawsuit. The Company's excess insurance carrier has not accepted coverage for this claim. No assurance can be given that this insurance will be adequate, or that the Company's excess insurance coverage will be available or adequate, to cover losses, if any, arising from this litigation.

In addition, the Company's credit agreement precludes it from making cash payment in settlement of this litigation without the prior consent of Fleet Capital Corporation. This litigation is ongoing and the Company cannot predict its outcome at this time. However, if the Company were to lose this lawsuit, judgment would likely have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

### SEC/U.S. ATTORNEY INVESTIGATION

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

The Company has also learned that the Office of the United States Attorney for the District of New Jersey is conducting an inquiry into the matters that are being investigated by the SEC.

The Company is in settlement discussions with the SEC. Based on these discussions, the Company provided an accrual of \$1,000 during the three months ended December 31, 2003 towards ultimate settlement. However, the Company cannot predict how long these investigations will continue or their ultimate outcome.

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### ROBERT L. DEWELT

On July 17, 2002, Robert DeWelt, the Company's former acting Chief Financial Officer and general manager of the Company's Schaevitz Division, filed a lawsuit against the Company and certain of the Company's officers and directors. 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 commenced the discovery process. This litigation is ongoing and the Company cannot predict its outcome at this time.

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### SERVICE MERCHANDISE COMPANY, INC.

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 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. The action alleges that the Company received \$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 \$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.

### EXETER TECHNOLOGIES, INC.

Exeter Technologies, Inc. ("Exeter") and Michael Yaron have alleged underpayments of approximately \$322 relating to a January 5, 2000 Product Line Acquisition Agreement. The Company maintains the claim failed to recognize the Company's rights to certain contractual allowances and offsets. The matter proceeded to non-binding arbitration. Post-hearing submissions are due in March 2004. The Company has acknowledged that it owed Exeter approximately \$128 as of October 1, 2003.

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 the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's business, financial condition, or operating results.

### RESOLVED MATTERS

#### HIBERNIA CAPITAL PARTNERS I, ILP AND HIBERNIA CAPITAL PARTNERS II, ILP.

On or about July 23, 2002, Hibernia Capital Partners I, ilp and Hibernia Capital Partners II, ilp filed a lawsuit against the Company in the High Court of Dublin. The Plenary Summons stated that plaintiffs sought a declaration that the plaintiffs entered into the share purchase agreement on June 7, 2001 for the sale of their shares in Terrailon Holdings Limited to the Company as a result of an operative misrepresentation and misstatement. Plaintiffs further sought damages for misrepresentation and/or breach of contract and/or breach of warranty and costs of the proceedings. This matter was settled for a \$150 payment from the Company to the plaintiffs.

#### SEMEX, INC.

On October 24, 2002, Semex, Inc. ("Semex") filed a lawsuit against the Company and Amp Incorporated ("AMP") alleging breaches of the lease for the Company's former facility in Valley Forge, Pennsylvania. The Company is the assignee of AMP under the lease. In addition to rent and other charges in the sum of \$770, plaintiff is also sought \$1,015 for building cleanup, restoration, failure to remove alterations and environmental testing of the premises. At a settlement conference on January 26, 2004, the Company, Semex and AMP reached a verbal agreement to settle this matter. The settlement was reported to the Court and settlement documentation is being prepared. As part of the settlement, the Company has agreed to pay \$1,425 to Semex within 30 days in exchange for a

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release of all claims and a termination of the litigation.

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### CLARK MATERIAL HANDLING COMPANY

The Company was the defendant (as successor to Lucas Control Systems) in a lawsuit filed in April 2002 by Clark Material Handling Company and its related debtors (the "Debtors") in the context of the Debtors' Chapter 11 bankruptcy proceedings. Plaintiffs asserted that Lucas Control Systems ("Lucas") received \$34 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 Lucas' 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 Lucas to receive more than it would have received if the cases were cases under Chapter 7 of the United States Bankruptcy Code. The action sought to disgorge the sum of \$34 from Lucas. This matter was settled for a \$19 payment from the Company to the plaintiffs.

### 11. RELATED PARTY TRANSACTIONS:

#### Restructuring Services

In May 2002, the Company retained Corporate Revitalization Partners ("CRP") to conduct its ongoing operational/financial restructuring efforts. In June 2002, Frank Guidone, a Managing Director of CRP, became the Company's Chief Executive Officer (See "Executive Services and Non-Cash Equity Based Compensation" below for a discussion of the current agreement relating to Mr. Guidone's services as Chief Executive Officer of the Company). As of December 31, 2003, and as of February 2, 2004, on a cumulative basis, the Company has incurred \$3,514 and \$3,556 respectively, in consulting fees and expenses to CRP (excluding the success fees described in this paragraph). For the three and nine month periods ended December 31, 2003, the company incurred \$221 and \$914, respectively, in fees to CRP. In addition to consulting fees based on hours billed by CRP consultants (at hourly rates that range from \$175 to \$275 and that are capped at a maximum of 50 hours per consultant each week), 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 and 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. Through December 31, 2003, the Company paid an aggregate of \$232 to Four Corners under this agreement.

In connection with the retention of the services of Mr. Guidone, Four Corners

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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. Subject to the continued service of Mr. Guidone, the right to purchase the shares vests at a rate of 35%, 30%, 20% and 15%, respectively, in each of the four years following the grant date of the warrant, with the potential of a reduced vesting period if certain performance targets are achieved. As a result of the performance of the Company's common stock, the first 35% of the warrant shares became vested on September 18, 2003. The other 30% and 20% of the warrant shares also became vested on October 24, 2003, and November 28, 2003, respectively. The Company recorded a non-cash equity based compensation charge of \$3,046 (\$0.22 per share diluted) and \$4,954 (\$0.36 per share diluted) during the three month and nine month periods ended December 31, 2003, respectively, representing the estimated fair value of the portion of the warrant that vested. For the three months ended December 31, 2003, the warrant was valued using the Black-Scholes option pricing model, using a risk free rate of 1.04%, 0.99% and 0.95%, volatility of 0.44, 0.31 and 0.25, and warrant life of five months, four months and three months, for the periods ended October 31, 2003, November 30, 2003 and December 31, 2003, respectively. The 90,000 remaining warrant shares vested on January 22, 2004, and an additional charge will be recorded in the fourth quarter ended March 31, 2004. See Note 8 for impact on diluted earnings per share of the 600,000 warrant shares issued to Four Corners.

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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.

See Note 5 for a discussion of the bridge loan from Castletop Capital, L.P., a limited partnership controlled by Morton L. Topfer, Chairman of the Company's Board of Directors.

### 12. SUBSEQUENT EVENT:

On January 30, 2004, the Company signed a definitive asset purchase agreement to sell assets associated with its Thinner brand bathroom and kitchen scale business to Conair Corporation for \$12,700 (subject to certain escrow, closing adjustments and offsets).

Under the terms of the agreement, Conair Corporation acquired certain assets associated with the sale of branded bathroom and kitchen scales, including worldwide rights to the Thinner brand name and exclusive rights to the Thinner designs in North America, for \$12,700. \$1,200 of this purchase price will be paid subject to the final inventory reconciliation; \$1,000 of this purchase price is being held in escrow and will be released if fiscal year 2004 sales revenues meet certain minimum thresholds. The Thinner brand business, representing a portion of the consumer business, totals approximately \$14,500 in annual net sales.

### 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.

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Our fiscal year begins on April 1 and ends on March 31. References in this report to the year 2003 or fiscal 2003 refer to the 12-month period from April 1, 2002 through March 31, 2003 and 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.

### OVERVIEW

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

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.

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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 |       | FOR THE NINE MONTHS ENDED |             |
|--------------------------------------|----------------------------|-------|---------------------------|-------------|
|                                      | DECEMBER 31,               |       | DECEMBER 31,              |             |
|                                      | 2003                       | 2002  | 2003                      | 2002<br>(1) |
| Net Sales                            |                            |       |                           |             |
| Sensor                               | 46.3%                      | 48.0% | 50.6%                     | 47.0%       |
| Consumer products                    | 53.7                       | 52.0  | 49.4                      | 52.0        |
| Total net sales                      | 100.0                      | 100.0 | 100.0                     | 100.0       |
| Cost of Sales                        | 55.9                       | 60.7  | 55.0                      | 64.0        |
| Gross profit                         | 44.1                       | 39.3  | 45.0                      | 35.0        |
| Operating expenses (income)          |                            |       |                           |             |
| Selling, general, and administrative | 25.2                       | 31.1  | 26.6                      | 31.0        |
| Litigation expense                   | 1.3                        | -     | 0.5                       |             |

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|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Non-cash equity based compensation                              | 9.6   | -     | 5.7   |       |
| Research and development  | 2.7   | 2.7   | 3.0   | 3.    |
| Customer funded development                                     | -     | -     | -     | (0.   |
| Restructuring costs   | 1.7   | 0.3   | 0.6   | 1.    |
| Interest expense, net   | 0.1   | 1.5   | 0.4   | 2.    |
| Gain on sale of wafer fab                                       | -     | -     | -     | (0.   |
| Other expenses  | 0.1   | (0.3) | -     | 0.    |
|   | ----- | ----- | ----- | ----- |
|   | 40.7  | 35.3  | 36.8  | 37.   |
| Income (loss) from continuing operations<br>before income taxes | 3.4   | 4.0   | 8.2   | (2.   |
| Income Tax Provision  | 0.7   | 0.3   | 0.9   | 0.    |
| Income (loss) from discontinued units                           | -     | 2.0   | 0.1   | (3.   |
|   | ----- | ----- | ----- | ----- |
| Net income (loss)   | 2.7%  | 5.7%  | 7.4%  | (6.   |
|   | ===== | ===== | ===== | ===== |