Measurement Specialties Inc
Form 10-Q
August 01, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES

EXCHANGE ACT OF 1934

FOR THE FISCAL QUARTERLY PERIOD ENDED JUNE 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)

New Jersey	22-2378738
(STATE OR OTHER JURISDICTION OF	**(I.R.S. EMPLOYER**

INCORPORATION OR ORGANIZATION) IDENTIFICATION NO.)

1000 LUCAS WAY, HAMPTON, VA 23666

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(757) 766-1500

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x.

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the latest practicable date: On July 20, 2012, the number of shares outstanding of the Registrant's common stock was 15,409,462.

MEASUREMENT SPECIALTIES, INC.

FORM 10-Q

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JUNE 30, 2012

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three months ended June 30,	
(Amounts in thousands, except share and per share amounts)	2012	2011
Net sales	$ 88,613	$ 77,184
Cost of goods sold	51,819	44,776
Gross profit	36,794	32,408
Selling, general, and administrative expenses	25,073	22,059
Operating income	11,721	10,349
Interest expense, net	722	579
Foreign currency exchange loss	39	399
Equity income in unconsolidated joint venture	(229)	(137)
Other expense	34	47
Income before income taxes	11,155	9,461
Income tax expense	2,566	1,453
Net income	$ 8,589	$ 8,008
Earnings per common share - Basic:		
Net income - Basic	$ 0.56	$ 0.53
Net income - Diluted	$ 0.53	$ 0.50
Weighted average shares outstanding - Basic	15,318	15,043
Weighted average shares outstanding - Diluted	16,155	16,028

See accompanying notes to consolidated condensed financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF

COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND 2011

(UNAUDITED)

(Amounts in thousands)	2012	2011
Net income	$8,589	$8,008
Other comprehensive income, net of income taxes:		
Currency translation adjustments	(3,529)	4,151
Comprehensive income	$5,060	$12,159

See accompanying notes to consolidated condensed financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(UNAUDITED)

(Amounts in thousands)	June 30, 2012	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,604	$ 32,725
Accounts receivable trade, net of allowance for doubtful accounts of $786 and $766, respectively	52,478	49,315
Inventories, net	57,952	57,704
Deferred income taxes, net	1,621	1,626
Prepaid expenses and other current assets	5,084	5,229
Other receivables	1,082	2,967
Asset held for sale	1,429	1,429
Total current assets	148,250	150,995
Property, plant and equipment, net	61,409	60,484
Goodwill	149,348	144,455
Acquired intangible assets, net	52,609	49,378
Deferred income taxes, net	3,516	3,613
Investment in unconsolidated joint venture	2,570	3,038
Other assets	6,734	6,244
Total assets	$ 424,436	$ 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)	June 30, 2012	March 31, 2012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ -	$ 1,867
Current portion of long-term debt	126	123
Current portion of capital lease obligations	27	30
Deferred acquisition payment	1,480	-
Accounts payable	28,904	31,879
Accrued expenses	4,510	5,116
Accrued compensation	9,104	8,755
Income taxes payable	2,358	3,124
Deferred income taxes, net	354	375
Other current liabilities	2,749	3,201
Total current liabilities	49,612	54,470
Revolver	83,713	80,251
Long-term debt, net of current portion	20,639	20,711
Capital lease obligations, net of current portion	23	30
Acquisition earn-out contingencies	4,355	4,317
Deferred income taxes, net	10,264	10,184
Other liabilities	5,081	5,227
Total liabilities	173,687	175,190
Equity:		
Serial preferred stock; 221,756 shares authorized; none outstanding	-	-
Common stock, no par; 25,000,000 shares authorized; 15,381,904 shares and 15,297,151 shares issued and outstanding	-	-
Additional paid-in capital	104,107	101,435
Retained earnings	137,602	129,013
Accumulated other comprehensive income	9,040	12,569
Total equity	250,749	243,017
Total liabilities and shareholders' equity	$ 424,436	$ 418,207

See accompanying notes to consolidated condensed financial statements.

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MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THERE MONTHS ENDED JUNE 30, 2012 AND 2011

(UNAUDITED)

(Amounts in thousands, except share amounts)	Shares of Common Stock	Additional Paid-in Capital	Retained Earnings	Comprehensive Income	Total
Balance, March 31, 2011	14,989,675	$ 93,608	$ 101,309	$ 14,152	$ 209,069
Comprehensive income:					
Net income			8,008	-	8,008
Currency translation adjustment			-	4,151	4,151
Non-cash equity based compensation		1,245	-	-	1,245
Amounts from exercise of stock options	145,142	2,571	-	-	2,571
Tax benefit from exercise of stock options		306	-	-	306
Balance, June 30, 2011	15,134,817	$ 97,730	$ 109,317	$ 18,303	$ 225,350
Balance, March 31, 2012	15,297,151	$ 101,435	$ 129,013	$ 12,569	$ 243,017
Comprehensive income:					
Net income			8,589	-	8,589
Currency translation adjustment			-	(3,529)	(3,529)
Non-cash equity based compensation		856	-	-	856
Amounts from exercise of stock options	84,753	1,228	-	-	1,228
Tax benefit from exercise of stock options		588	-	-	588
Balance, June 30, 2012	15,381,904	$ 104,107	$ 137,602	$ 9,040	$ 250,749

See accompanying notes to consolidated condensed financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three months ended June 30,					
(Amounts in thousands)	2012			2011		
Cash flows from operating activities:						
Net income	$	8,589		$	8,008	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		4,372			3,520	
Non-cash equity based compensation		856			1,245	
Acquisition earn-out fair value adjustment		90			-	
Deferred income taxes		105			(612	)
Equity income in unconsolidated joint venture		(229	)		(137	)
Unconsolidated joint venture distributions		825			-	
Net change in operating assets and liabilities:						
Accounts receivable, trade		(4,420	)		59	
Inventories		(1,180	)		(1,560	)
Prepaid expenses, other current assets and other receivables		1,444			1,897	
Other assets		(513	)		(493	)
Accounts payable		(2,415	)		411	
Accrued expenses, accrued compensation, other current and other liabilities		(378	)		(2,663	)
Income taxes payable		(738	)		(733	)
Net cash provided by operating activities		6,408			8,942	
Cash flows from investing activities:						
Purchases of property and equipment		(3,900	)		(2,576	)
Acquisition of business, net of cash acquired, and acquired intangible assets		(10,013	)		-	
Net cash used in investing activities		(13,913	)		(2,576	)
Cash flows from financing activities:						
Borrowings from revolver and short-term debt		7,797			-	
Repayments of revolver and capital leases		(5,806	)		(2,027	)
Repayments of long-term debt		(24	)		(42	)
Proceeds from exercise of options and employee stock purchase plan		1,228			2,571	
Excess tax benefit from exercise of stock options		588			306	
Net cash provided by (used in) financing activities		3,783			808	
Net change in cash and cash equivalents		(3,722	)		7,174	
Effect of exchange rate changes on cash		(399	)		345	
Cash, beginning of year		32,725			20,860	
Cash, end of period	$	28,604		$	28,379	

Supplemental Cash Flow Information:

Cash paid or received during the period for:

Interest paid	$ (738)	$ (511)
Income taxes paid	(2,487)	(2,691)

See accompanying notes to condensed consolidated financial statements.

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MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 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 June 30, 2012 and for the three months ended June 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 June 30, 2012, the results of its operations for the three months ended June 30, 2012 and 2011, and cash flows for the three months ended June 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, assets 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.

In September 2011, the FASB issued new guidance on testing goodwill for impairment. Entities have an option of performing a qualitative assessment before calculating the fair value of their reporting units. If, based on the qualitative assessment, an entity concludes it is more likely than not that the fair value of the reporting unit exceeds its carrying value, quantitative testing for impairment is not necessary. The new accounting standard was applicable for goodwill impairment testing performed in years beginning after December 15, 2011 and early adoption was permitted. The Company adopted the new reporting requirements effective April 1, 2012.

3. STOCK BASED COMPENSATION AND PER SHARE INFORMATION

Non-cash equity-based compensation expense for the three months ended June 30, 2012 and 2011 was $856 and $1,245, respectively. During the three months ended June 30, 2012, the Company granted 62,500 stock awards from the 2010 Equity Incentive Plan (the “2010 Plan”). The estimated fair value of stock options and restricted stock units granted during three months ended June 30, 2012 approximated $1,026, net of expected forfeitures and is being recognized over the respective vesting periods. During the three months ended June 30, 2012, the Company recognized $157 of expense related to these stock awards and restricted stock units.

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 June 30, 2012		2011	
Dividend yield	-		-	
Expected volatility	59.4	%	74.1	%
Risk free interest rate	0.7	%	1.3	%
Expected term after vesting (in years)	2.0		2.0	
Weighted-average grant-date fair value	$ 15.06		$ 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 three months ended June 30, 2012, a total of 84,753 stock awards were exercised yielding $1,228 in cash proceeds and excess tax benefit of $588 recognized as additional paid-in capital. At June 30, 2012, there was $2,086 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 year.

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 85,586 and 417,923 weighted shares were excluded from the calculation for the three months ended June 30, 2012 and 2011, respectively, 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 June 30, 2012:			
Basic per share information	$ 8,589	15,318	$ 0.56
Effect of dilutive securities	-	837	(0.03)
Diluted per-share information	$ 8,589	16,155	$ 0.53
Three months ended June 30, 2011:			
Basic per share information	$ 8,008	15,043	$ 0.53
Effect of dilutive securities	-	985	(0.03)
Diluted per-share information	$ 8,008	16,028	$ 0.50

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 June 30, 2012 and March 31, 2012 are summarized as follows:

	June 30, 2012	March 31, 2012
Raw Materials	$ 31,048	$ 30,419
Work-in-Process	11,387	11,929
Finished Goods	19,795	19,613
	62,230	61,961
Inventory Reserves	(4,278)	(4,257)
	$ 57,952	$ 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:

	June 30, 2012	March 31, 2012	Useful Life
Production equipment and tooling	$ 60,470	$ 60,144	3-10 years
Building and leasehold improvements	34,662	26,390	39 to 45 years or lesser of useful life or remaining term of lease
Furniture and equipment	15,898	15,890	3-10 years
Construction-in-progress	6,126	12,943	
Total	117,156	115,367	
Less: accumulated depreciation and amortization	(55,747)	(54,883)	
	$ 61,409	$ 60,484	

Included in construction in progress at March 31, 2012 was approximately $8,375, related to the construction of the new facility in Toulouse, France. Total depreciation was $2,308 and $2,107 for the three months ended June 30, 2012 and 2011, respectively. Property and equipment included $50 and $60 in capital leases at June 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 three months ended June 30, 2012:

Accumulated goodwill	$147,808
Accumulated impairment losses	(3,353)
Balance March 31, 2012	144,455
Attributable to 2013 acquisitions	4,831
Effect of foreign currency translation	62
Balance June 30, 2012	$149,348

The following briefly describes the Company's acquisitions since March 31, 2010.

Pressure Systems, Inc.: On September 8, 2010, the Company acquired all of the capital stock of Pressure Systems, Inc. ("PSI"), a sensor company based in Hampton, Virginia, for $25,037 ($25,000 in cash at close and approximately $37 paid after closing). PSI is a global leader in pressure sensing instrumentation for the aerospace industry and for water monitoring within operational and resource management applications. The water monitoring industry is large and a significant growth opportunity for the Company. Additionally, the Company achieved cost synergies with the PSI business combination mainly through the consolidation of operations due to the close proximity of the acquisition to the Company's existing Hampton facility. The transaction was funded from a combination of available cash on hand and borrowings under the Company's Senior Secured Credit Facility. For the three months ended June 30, 2011, approximately $4,035 in net sales and approximately $833 of net income were included in the Company's consolidated condensed financial statements. From the acquisition date to March 31, 2011, approximately $11,603 of net sales and approximately $2,111 of net income were included in the Company's consolidated financial statements, as well as $176 in transaction related costs.

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 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. The estimate for this earn-out is based on certain assumptions and actual amounts could differ significantly and changes to this estimate will be recorded to earnings in future periods. 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 transaction was funded from available cash on hand. For the three months ended June 30, 2012, approximately $420 of net sales and approximately $130 of net loss were included in the Company's consolidated condensed financial statements. Since the acquisition date to March 31, 2012, approximately $1,210 of net sales, approximately $199 of net losses and transaction related costs of approximately $100 as a component of selling, general and administrative expenses related to Eureka were included in the Company's consolidated financial statements. The Company's final purchase price allocation related to the Eureka acquisition is as follows:

Assets:	
Inventory	$183
Prepaid and other	41
Property and equipment	27
Acquired intangible assets	722
Goodwill	3,393
	4,366
Liabilities:	
Accrued expenses	(16)
Accrued Earn-out Contingency	(2,100)
	(2,116)
Cash Paid	2,250
Accrued Earn-out Contingency	2,100
Total Purchase Price	$4,350

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 is subject to additional consideration adjustments based on final calculations of established working capital levels. 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. The transaction was funded from borrowings under the Company's Senior Secured Credit Facility, as defined in Note 8 below. For the three months ended June 30, 2012, approximately $4,167 in net sales and $1,158 in net income from Celesco were included in the Company's consolidated condensed financial statements. Since the acquisition date to March 31, 2012, approximately $8,292 in net sales, $959 in net income and transaction-related costs of approximately $280 recorded as a component of selling, general and administrative expenses related to Celesco were included in the Company's consolidated financial statements. The purchase price allocation for the Celesco acquisition is subject to certain adjustments, including income taxes, which will be finalized within the permitted measurement period. The Company's preliminary purchase price allocation related to the Celesco acquisition is as follows:

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Assets:	
Cash	$4,618
Accounts receivable	2,338
Inventory	3,240
Prepaid and other	668
Property and equipment	75
Other	272
Acquired intangible assets	18,660
Goodwill	19,654
	49,525
Liabilities:	
Accounts payable	(701)
Accrued expenses and other liabilities	(1,853)
Income taxes payable	(2,430)
Deferred income taxes	(7,166)
	(12,150)
Total Purchase Price	$37,375

The opening balance sheet for Celesco includes acquired cash of approximately $2,375, as well as $2,243 of cash and seller transaction related obligations for certain post-close payments.

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. 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. The estimate for this earn-out is based on certain assumptions and actual amounts could differ significantly. Changes to this estimate will be recorded to earnings in future periods. The acquisition of Gentech is expected to allow the Company to compete in the urea tank market with combined level and quality sensors. The transaction was funded from borrowings under the Company's Senior Secured Credit Facility. For the three months ended June 30, 2012, approximately $3,862 in net sales, $332 in net income and transaction related costs of approximately $1 as a component of selling, general and administrative expenses related to Gentech were included in the Company's consolidated condensed financial statements. Since the acquisition date to March 31, 2012, approximately $6,895 in net sales, $365 in net income and transaction related costs of approximately $310 as a component of selling, general and administrative expenses related to Gentech were included in the Company's consolidated condensed financial statements. The purchase price allocation for Gentech acquisition is subject to certain adjustments, including income taxes, which will be finalized within the permitted measurement period. The Company's preliminary purchase price allocation related to the Gentech acquisition is as follows:

Assets:	
Cash	$1,328

Accounts receivable	2,591
Inventory	1,164
Prepaid and other	122
Property and equipment	299
Acquired intangible assets	7,404
Goodwill	5,186
	18,094
Liabilities:	
Accounts payable	(1,191)
Accrued expenses and other liabilities	(3,257)
Deferred income taxes	(1,851)
	(6,299)
Cash paid	11,795
Accrued Earn-out Contingency	2,237
Total Purchase Price	$ 14,032

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. For the three months ended June 30, 2012, approximately $1,839 in net sales, approximately $341 in net income and transaction related costs of approximately $10 were recorded as a component of selling, general and administrative expenses related to Cosense were included 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	6,155
Goodwill	4,831
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. The carrying value of the former PSI facility is $1,429, of which $635 represents land value, 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 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:

		June 30, 2012			March 31, 2012		
	Weighted-Average Life in years	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Amortizable intangible assets:							
Customer relationships	10	$60,883	$ (21,925)	$38,958	$58,735	$ (21,547)	$37,188
Patents	15	3,881	(1,763)	2,118	4,058	(1,781)	2,277
Tradenames	2	2,488	(2,389)	99	2,562	(2,428)	134
In-process research & development	Indefinite	-	-	-	230	-	230
Backlog	1	5,113	(4,953)	160	4,910	(4,910)	-
Covenants-not-to-compete	3	1,220	(1,080)	140	1,202	(1,071)	131
Proprietary technology	11	14,414	(3,280)	11,134	12,469	(3,051)	9,418
		$87,999	$ (35,390)	$52,609	$84,166	$ (34,788)	$49,378

Amortization expense for acquired intangible assets for the three months ended June 30, 2012 and 2011 was $1,994 and $1,318, respectively. Annual amortization expense for the years ending June 30 is estimated as follows:

Year	Amortization Expense
2013	$ 6,854
2014	6,085
2015	5,943
2016	5,791
2017	5,540
Thereafter	22,396
	$ 52,609

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 months ended June 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 June 30,	
	2012	2011
Net sales	$ 88,613	$ 86,151
Net income	$ 8,749	$ 9,417
Net income per share:		
Basic	$ 0.57	$ 0.63
Diluted	$ 0.54	$ 0.59

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 June 30, 2012 and March 31, 2012 are as follows:

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	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
June 30, 2012				
Liabilities:				
Foreign currency exchange contracts	$ -	$ 153	$ -	$153
Acquisition earn-out contingencies	-	-	4,355	4,355
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
Effect of foreign currency translation	(52)
Changes in fair value	90
Balance at June 30, 2012	$4,355

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 discounted future cash flows approach. Key assumptions include discount rates for present value factor of 16% for Eureka and 3.3% 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 component of selling, general and administrative expenses.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three months ended June 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.

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The fair values and carrying amounts of other financial instruments as of March 31, 2012 and 2011are as follows:

	June 30, 2012		March 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
Short-term borrowings and notes payable	$-	$-	$1,867	$1,867
Captial leases	50	50	60	60
Revolver	83,713	83,713	80,251	80,251
Term debt	20,765	20,765	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 three months ending June 30, 2012. However, during the fourth quarter of fiscal 2012, the Company recorded a $400 impairment charge 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 based on recent transactions for similar assets and third party estimates, which are classified as Level 3 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 three months ended June 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 U.S. dollar. However, there can be no assurance that the value of the Hong Kong dollar will continue to be tied to that of the U.S. dollar.

The Company's French, Irish and German subsidiaries have more sales in Euros than expenses in Euros and the Company's Swiss subsidiary has more expenses in Swiss francs than sales in Swiss francs, and as such, if the U.S. dollar weakens relative to the Euro and Swiss franc, our operating profits increase in France, Ireland and Germany, but decrease in Switzerland. The Company's British subsidiary has more expenses in British pounds than sales in British pounds, and as such, if the U.S. dollar weakens relative to the British pound, our operating profits decrease in the United Kingdom.

The Company has a number of foreign currency exchange contracts in Asia for the purposes of hedging the Company's short-position exposure to the RMB. At June 30, 2012, the Company has a number of RMB/U.S. dollar currency contracts with notional amounts totaling $17,000 and exercise dates through September 28, 2013 at average exchange rates of 0.1585 (RMB to U.S. dollar conversion rate). With the RMB/U.S. dollar contracts, for every 10 percent depreciation of the RMB, the Company would be exposed to approximately $1,700 in additional foreign currency exchange losses. Since these derivatives are not designated as hedges for accounting purposes, changes in their fair value are recorded in results of operations, not in other comprehensive income. To manage our exposure to potential foreign currency transaction and translation risks, we may purchase additional foreign currency exchange forward contracts, currency options, or other derivative instruments, provided such instruments may be obtained at suitable prices.

Fair values of derivative instruments not designated as hedging instruments are as follows:

	June 30, 2012	March 31, 2012	**Location**
Financial position:			
Foreign currency contracts – RMB	$ (153)	$ 11	Other assets (liabilities)

The effect of derivative instruments not designated as hedging instruments on the statements of operations and cash flows for the three months ended June 30, 2012 and 2011 is as follows:

	Three months ended June 30,		
	2012	2011	**Location**
Results of operations:			
Foreign currency contracts - RMB	$ 227	$ (54)	Foreign currency exchange (gain) loss
Total	$ 227	$ (54)	

	Three months ended June 30,		
	2012	2011	**Location**
Cash flows from operating activities: Source (Use)			
Foreign currency exchange contracts - RMB	$ 24	$ (91)	Prepaid expenses (Accrued expenses)
Total	$ 24	$ (91)	

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