MEASUREMENT SPECIALTIES INC
Form 10-Q
August 09, 2006

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 QUARTERLY PERIOD ENDED JUNE 30, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 1-11906

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

New Jersey	**22-2378738**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**

1000 LUCAS WAY, HAMPTON, VA 23666
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(757) 766-1500
(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 o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 14,122,504 shares of common stock, no par value per share, as of August 1, 2006.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended June 30,			
(Dollars in thousands, except per share amounts)		**2006**		**2005**
Net sales	**$**	**45,991**	**$**	**25,278**
Cost of goods sold		25,416		12,716
Gross profit		20,575		12,562
Operating expenses:				
Selling, general, and administrative		13,923		9,871
Non-cash equity based compensation (SFAS 123R)		580		-
Amortization of acquired intangibles		1,018		428
Total operating expenses		15,521		10,299
Operating income		5,054		2,263
Interest expense, net		1,738		471
Other expense		245		43
Income from continuing operations before minority interest and income taxes		3,071		1,749
Minority interest		74		-
Income tax expense from continuing operations		568		467
Income from continuing operations	**$**	**2,429**	**$**	**1,282**
Discontinued operations (Note 1):				
Income from discontinued operations before income taxes - Consumer		29		2,224
Income taxes from discontinued operations		6		570
Income from discontinued operations		23		1,654
Net income	**$**	**2,452**	**$**	**2,936**
Net income per common share - Basic				
Income from continuing operations	$	0.17	$	0.10
Income from discontinued operations		-		0.12
Net income per common share - Basic	$	0.17	$	0.22
Net income per common share - Diluted				
Income from continuing operations	$	0.17	$	0.09
Income from discontinued operations		-		0.12
Net income per common share - Diluted	$	0.17	$	0.21
Weighted average shares outstanding - Basic		14,027,986		13,582,488
Weighted average shares outstanding - Diluted		14,442,196		14,302,108

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Dollars in thousands)		June 30, 2006		March 31, 2006
ASSETS				
Current assets:				
Cash and cash equivalents	$	10,974	$	9,166
Accounts receivable, trade, net of allowance for doubtful accounts of $548 and $447, respectively		28,854		19,381
Inventories, net		33,161		25,099
Deferred income taxes		1,545		1,510
Prepaid expenses and other current assets		1,880		1,821
Other receivables		1,412		3,409
Due from joint venture partner		706		-
Current portion of promissory note receivable		1,849		1,900
Current assets of discontinued operations		270		1,111
Total current assets		80,651		63,397
Property and equipment, net		24,800		22,086
Goodwill		74,185		41,848
Acquired intangible assets, net		20,356		11,250
Deferred income taxes		9,924		10,785
Promissory note receivable, net of current portion		998		1,397
Other assets		2,041		1,542
Assets of discontinued operations		119		119
Total other assets		132,423		89,027
Total Assets	**$**	**213,074**	**$**	**152,424**

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Dollars in thousands)		June 30, 2006		March 31, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of promissory notes payable	$	800	$	1,000
Current portion of deferred acquisition payments		4,075		3,972
Short-term debt		245		3,777
Current portion of long-term debt		2,264		2,553
Accounts payable		16,494		11,337
Accrued expenses		1,347		2,190
Accrued compensation		4,656		3,116
Income taxes payable		1,345		789
Current portion of capital lease obligation		606		606
Other current liabilities		1,655		1,731
Current liabilities of discontinued operations		440		1,266
Total current liabilities		33,927		32,337
Other liabilities:				
Revolver		49.410		-
Promissory notes payable, net of current portion		50		100
Long-term debt, net of current portion		19,032		16,794
Deferred acquisition payments, net of current portion		1,885		-
Contingent consideration provision		-		3,517
Capital lease obligation, net of current portion		1,855		2,180
Other liabilities		3,689		1,999
Total liabilities		109,848		56,927
Minority Interest		1,241		-
Shareholders' equity:				
Serial preferred stock; 221,756 shares authorized; none outstanding		-		-
Common stock, no par; 20,000,000 shares authorized; 14,077,100 and 13,970,033 shares issued and outstanding, respectively		-		-
Additional paid-in capital		68,776		66,371
Retained earnings		33,715		31,263
Accumulated other comprehensive income (loss)		(506)		(2,137)
Total shareholders' equity		101,985		95,497
Total liabilities and shareholders' equity	**$**	**213,074**	**$**	**152,424**

See Accompanying Notes to Condensed Consolidated Financial Statements.

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MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

(Dollars in thousands)	Additional paid-in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Balance, March 31, 2005	$ 61,787	6,729	(500)	$ 68,016	
Comprehensive income:					
Net income		2,936		2,936	$ 2,936
Currency translation adjustment			(1,544)	(1,544)	(1,544)
Comprehensive income					$ 1,392
Proceeds from exercise of stock options	100			100	
Tax benefit from exercise of stock options	135			135	
Balance, June 30, 2005	$ 62,022	$ 9,665	$ (2,044)	$ 69,643	
Balance, March 31, 2006	$ 66,371	$ 31,263	$ (2,137)	$ 95,497	
Comprehensive income:					
Net income		2,452		2,452	$ 2,452
Currency translation adjustment			1,631	1,631	1,631
Comprehensive income					$ 4,083
Non-cash equity based compensation	580			580	
Issuance of common stock for acquisition of BetaTherm	1,000			1,000	
Proceeds from exercise of stock options	825			825	
Balance, June 30, 2006	$ 68,776	$ 33,715	$ (506)	$ 101,985	

See Accompanying Notes to Condensed Consolidated Financial Statements

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

(Dollars in thousands)	For the quareter ended June 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 2,452	$ 2,936
Income from discontinued operations - Consumer	23	1,654
Income from continuing operations	2,429	1,282
Adjustments to reconcile net income to net cash provided by (used) operating activities:		
Depreciation and amortization	2,423	1,240
Gain (loss) on sale of assets	(19)	-
Provision for doubtful accounts	36	159
Provision for inventory obsolescence	450	725
Provision for warranty	38	245
Minority interest	74	-
Non-cash equity compensation	580	-
Deferred income taxes	(10)	59
Net change in operating assets and liabilities:		
Accounts receivable, trade	(2,505)	1,619
Inventories	(3,727)	(4,243)
Prepaid expenses and other current assets	604	(88)
Other assets	6	(490)
Accounts payable, trade	2,929	5,341
Accrued expenses and other liabilities	67	(74)
Income taxes payable	(744)	468
Net cash provided by operating activities from continuing operations	2,631	6,243
Cash flows used in investing activities:		
Purchases of property and equipment	(2,010)	(1,129)
Proceeds from sale of equipment	57	-
Acquisitions of business, net of cash acquired	(46,360)	(742)
Net cash used in investing activities from continuing operations	(48,313)	(1,871)
Cash flows from financing activities:		
Borrowing under long-term debt note	21,885	-
Repayments under secured note	(18,123)	-
Borrowings under short-term debt, revolver and notes payable	45,917	(1,150)
Payments under short-term debt, revolver and notes payable	(3,768)	(1,411)
Payments under capital leases	(52)	-
Tax benefit on exercise of stock options and warrants	-	135
Proceeds from exercise of options and warrants	825	100
Net cash provided (used) in financing activities from continuing operations	46,684	(2,326)
Net cash provided (used) by operating activities of discontinued operations	230	(467)

Net cash provided (used) by investing activities of discontinued operations		473		(189)
Net cash provided (used) by discontinued operations		703		(656)
Net change in cash and cash equivalents		1,705		1,390
Effect of exchange rate changes on cash		103		61
Cash, beginning of period		9,166		4,402
Cash, end of period	$	10,974	$	5,853
Supplemental Cash Flow Information:				
Cash paid during the period for:				
Interest	$	831	$	398
Income taxes		175		89
Noncash investing and financing transactions:				
Deferred acquisition payments		1,787		-
Issuance of stock in connection with acquisition of BetaTherm		1,000		-
Capital leases		-		241

See Accompanying Notes to Condensed Consolidated Financial Statements

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MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED JUNE 30, 2006

(Dollars in thousands, except share amounts)

1. BASIS OF PRESENTATION

Measurement Specialties, Inc. (the "Company") sold its Consumer business during the quarter ended December 31, 2005. As a result, assets, liabilities, and results of operations of the Consumer business have been presented as discontinued operations as of June 30, 2006 and March 31, 2006 and for the periods then ended. In addition, prior year amounts have been reclassified to conform with current year presentation. Except as otherwise noted, the descriptions of our business and results of operations contained in this report reflect only our continuing operations.

Interim Financial Statements:

The information presented as of June 30, 2006 and for the three month periods ended June 30, 2006 and 2005 are unaudited, and reflect all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for the fair presentation of the Company's financial position as of June 30, 2006 and the results of its operations and cash flows for the three-month periods ended June 30, 2006 and 2005. The March 31, 2006 balance sheet information was derived from the audited consolidated financial statements for the year ended March 31, 2006, which are included as part of the Company's Annual Report on Form 10-K.

The condensed consolidated financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles and the instructions to Form 10-Q and Rule 10-01 of 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 condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2006, 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 designing and manufacturing sensors for original equipment manufacturers and end users. The Company produces a wide variety of sensors that use advanced technologies to measure precise ranges of physical characteristics including pressure, position, force, vibration, humidity, temperature, and photo-optics. These sensors are used for industrial, automotive, medical, consumer and military/aerospace applications. The Company's sensor products include pressure and electromagnetic displacement sensors, transducers, piezoelectric polymer film sensors, custom microstructures, load cells, accelerometers, optical sensors, humidity and temperature sensors.

The majority of our sensors are devices, sense elements and transducers that convert mechanical information into a proportionate electronic signal for display, processing, interpretation or control. Sensors are essential to the accurate measurement, resolution and display of pressure, force, linear or rotary position, tilt, vibration, motion or humidity. Our other sensor products are transducers that convert an applied electrical signal into a mechanical motion corresponding to the amplitude and frequency of the electrical input.

The Company's advanced technologies include piezo-resistive silicon sensors, application-specific integrated circuits, micro-electromechanical systems ("MEMS"), piezoelectric polymers, foil strain gauges, force balance systems, fluid capacitive devices, linear and rotational variable differential transformers, electromagnetic displacement sensors, hygroscopic capacitive sensors and ultrasonic sensors. These technologies allow our sensors to operate precisely and cost effectively.

The Company is a global operation with engineering and manufacturing facilities located in North America, Europe and Asia. By functioning globally, the Company has been able to enhance its applications engineering capabilities, increase the Company’s geographic proximity to its customers and leverage its cost structure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

The consolidated condensed financial statements include the accounts of the continuing Sensor operations of Measurement Specialties, Inc., its wholly owned subsidiaries (the “Subsidiaries”), and its joint venture in Japan. The Company sold the Consumer business and, accordingly, the financial statements for the Consumer operations are reported separately as discontinued operations for all periods presented.

The Company has made the following acquisitions which are included in the consolidated financial statements as of the effective date of acquisition (See Note 6):

Acquired Company	Effective Date of Acquisition	Country
Elekon Industries USA, Inc. (‘Elekon’)	June 24, 2004	USA
Entran Devices, Inc. and Entran SA (‘Entran’)	July 16, 2004	USA and France
Encoder Devices, LLC (‘Encoder’)	July 16, 2004	USA
Humirel, SA (‘Humirel’)	December 1, 2004	France
MWS Sensorik GmbH (‘MWS’)	January 1, 2005	Germany
Polaron Components Ltd (‘Polaron’)	February 1, 2005	United Kingdom
HL Planartechnik GmbH (‘HLP’)	November 30, 2005	Germany
Assistance Technique Experimentale (‘ATEX’)	January 19, 2006	France
YSIS Incorporated (‘YSI Temperature’)	April 1, 2006	USA
BetaTherm Group Ltd. (‘BetaTherm’)	April 1, 2006	Ireland and USA

The above companies, except for Encoder and Polaron which were asset purchases, are wholly-owned direct and indirect subsidiaries of the Company.

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

Reclassifications:

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

Use of Estimates:

The preparation of the condensed consolidated financial statements in conformity 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 carrying amount of property, plant and equipment, acquired intangibles and goodwill, valuation allowances for receivables, inventories and deferred income tax assets and liabilities, warranties, and valuation of derivative financial instruments. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements:

On July 13, 2006, Financial Accounting Standards Board Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109,* was issued. FIN 48 clarifies the accounting for uncertainty in income tax recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (“SFAS No. 109”). FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is a recognition process whereby the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is a measurement process whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as long as the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. The Company is currently quantifying the impact of FIN 48; however, the Company does not believe the adoption of FIN 48 will have a material effect on its financial position and results of operations.

Recently Adopted Accounting Pronouncements:

In December 2004, the Financial Accounting Standards Board ('FASB') issued SFAS No. 123R (Revised 2004), Share-Based Payment. SFAS 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements, rather than disclosed in the footnotes to the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The scope of SFAS No. 123R includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123R replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Under the effective date provisions included in SFAS No. 123R, registrants would have been required to implement the Statement's requirements as of the beginning of the first interim or annual period beginning after June 15, 2005, or June 30, 2006 for the Company. The Company adopted SFAS No. 123R as disclosed in Note 3.

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

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This new standard replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements* , and represents another step in the FASB's goal to converge its standards with those issued by the IASB. Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Early adoption of this standard is permitted for accounting changes and correction of errors made in fiscal years beginning after June 1, 2005. The adoption of SFAS No. 154 did not have a material effect on the Company's financial position or results of operations.

3. STOCK BASED COMPENSATION AND PER SHARE INFORMATION

The Company has two active share-based compensation plans. These plans are administered by the compensation committee of the Board of Directors. The Chief Executive Officer selects persons 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. Terms for stock-option awards include pricing based on the closing price on the award date, and generally vest over four or five years and such awards are granted based on the individual's performance. Readers should refer to Notes 1 and 15 of our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006, for additional information related to these share-based compensation plans.

Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment" utilizing the modified prospective approach. Prior to the adoption of SFAS 123R, we accounted for stock option grants in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (the intrinsic value method), and accordingly, recognized no compensation expense for stock option grants to employees.

Under the modified prospective approach, SFAS 123R applies to new awards and to awards that were outstanding on April 1, 2006, as well as those that are subsequently modified, repurchased or cancelled. Under the modified prospective approach, compensation cost recognized in the three months ended June 30, 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payments granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Prior periods were not restated to reflect the impact of adopting the new standard. As a result of adopting SFAS 123R on April 1, 2006, our income before taxes for the three months ended June 30, 2006 were lower by $580. For the three months ended June 30, 2006, stock compensation expense decreased net income by representing $0.03 on a per diluted share basis, than if the Company had continued to account for share-based compensation under APB Opinion No. 25 for it's stock option grants.

The Company receives a tax deduction for certain stock options and stock option exercises during the period the options are exercised, generally for the excess of the fair value of the stock over the exercise price of the options at the exercise date. Prior to adoption of SFAS 123R, the Company reported all tax benefits resulting from the award of equity instruments as operating cash flows in its condensed consolidated statements of cash flows. In accordance with SFAS 123R, the Company is required to report excess tax benefits from the award of equity instruments as financing cash flows, however as the Company is currently in a net operating loss carry-forward position, there is no cash flow effect for the excess tax benefits. Excess tax benefits will be recorded when a deduction reported for tax return purposes for an award of equity instruments exceeds the cumulative compensation cost for the instruments recognized for financial reporting purposes once the Company is no longer in a net operating loss carry-forward position.

Net cash proceeds from the exercise of stock options were $825 and $100 for the three months ended June 30, 2006 and 2005, respectively, and the income tax benefit realized for the three month periods ended June 30, 2006 and 2005 from stock option exercises was $0 and $135 , respectively.

The following table illustrates the effect on operating results and per share information had the Company accounted for share-based compensation in accordance with SFAS 123R for the periods indicated (in thousands, except per share amounts):

		Quarter ended June 30, 2005
Net income, as reported:	$	2,936
Add: Share-based employee compensation reported in net income, net of taxes		-
Deduct: Share-based employee compensation under the fair value method for all awards, net of taxes		(640)
Pro forma	$	2,296
Basic net income per share, as reported:	$	0.22
Add: Share-based employee compensation reported in net income, net of taxes		-
Deduct: Share-based employee compensation under the fair value method for all awards, net of taxes		(0.05)
Pro forma	$	0.17

Diluted net income per share, as reported:	$	0.21
Add: Share-based employee compensation reported in net income, net of taxes		-
Deduct: Share-based employee compensation under the fair value method for all awards, net of taxes		(0.05)
Pro forma	$	0.16

Stock Options:

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

	Quarter Ended June 30, 2006		2005	
Dividend yield		-		-
Weighted-average expected volality		70.3%		29.3%
Expected volality		41.8%-91.7%		29.3%
Risk-Free interest rate		4.9%-5.2%		4.8%
Expected life of options (in years)		3.2-7.2		4.8
Weighted-average grant-date fair value	$	15.06	$	7.21

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.

At June 30, 2006, there was $4,753 of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted-average period of 2 years. The unrecognized compensation cost above is not adjusted for estimated forfeitures. Including estimated forfeitures, at June 30, 2006, there was $3,640 of unrecognized compensation cost related to share-based payments.

The following table represents stock option activity for the three months ended June 30, 2006:

	Number of shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contract Life in Years
Outstanding options at beginning of period	1,468,504	$	17.36	5.46
Granted	72,500		25.09	
Exercised	(103,620)		7.61	
Forfeited and expired	(33,070)		20.21	
Outstanding options at end of period	1,404,314		18.41	5.52
Outstanding exerciseable at end of period	495,190	$	12.81	3.48

Shares available for future stock option grants to employees and directors under existing plans were 95,000 at June 30, 2006. The aggregate intrinsic value of options outstanding at June 30, 2006, was $7,202, and the aggregate intrinsic value of options exercisable of $4,935. Total intrinsic value of options exercised was $1,852 for the three months ended June 30, 2006.

The following table summarizes our non-vested stock option activity for the three months ended June 30, 2006:

	Number of Shares		Weighted-Average Grant-Date Fair Value
Non-vested stock options at beginning of period	967,934	$	5.51

Granted	72,500		
Exercised	(19,420)		
Vested	(85,060)		
Forfeited and expired	(26,830)		
Non-vested stock options at end of period	909,124	$	5.23

Per Share Information:

Basic per share information is computed based on the weighted average common shares outstanding during each period. Diluted per share information additionally considers the shares that may be issued upon exercise or conversion of stock options and warrants, less the shares that may be repurchased with the funds received from their exercise. There were approximately 674,000 and 328,000 anti-dilutive weighted shares excluded from the calculation in the periods ended June 30, 2006, and June 30, 2005, respectively.

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

		Net income (Numerator)	Weighted Average Shares (Denominator)		Per-Share Amount
Quarter ended June 30, 2006:					
Basic per share information	$	2,452	14,027,986	$	0.17
Effect of dilutive securities		-	414,210		-
Diluted per-share information	$	2,452	14,442,196	$	0.17
Quarter ended June 30, 2005:					
Basic per share information	$	2,936	13,582,488	$	0.22
Effect of dilutive securities		-	719,620		(0.01)
Diluted per-share information	$	2,936	14,302,108	$	0.21

4. INVENTORIES

Inventories, net of inventory reserves, and inventory reserves for slow moving, obsolete and lower of cost or market exposures at June 30, 2006 and March 31, 2006 are summarized as follows:

		June 30, 2006		March 31, 2006
Raw Materials	$	17,145	$	13,586
Work-in-Process		6,629		4,392
Finished Goods		9,387		7,121
	$	**33,161**	**$**	**25,099**
Inventory Reserves:	$	2,847	$	2,670

5. PROPERTY, PLANT AND EQUIPMENT

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

		June 30, 2006		March 31, 2006	Useful Life
Production equipment & tooling	$	27,913	$	27,156	3-10 years
Building and leasehold improvements		5,776		3,914	39 years or lesser of useful life or remaining term of lease
Furniture and equipment		8,808		7,135	3-10 years
Construction-in-progress		2,212		1,999	
Total		44,709		40,204	
Less: accumulated depreciation and amortization		(19,909)		(18,118)	
	$	24,800	$	22,086	

Total depreciation from continuing operations was $1,290, and $813 for the quarters ended June 30, 2006 and 2005, respectively. Depreciation expense for discontinued operations for the three months ended June 30, 2006 and 2005 was $0 and $204, respectively. Property and equipment included $2,608 and $2,786 in capital leases at June 30, 2006 and March 31, 2006, respectively.

6. ACQUISITIONS, GOODWILL AND ACQUIRED INTANGIBLES

Recent Acquisitions:

As part of its growth strategy in the Sensors segment, the Company made six acquisitions during the year ended March 31, 2005, two acquisitions during the year ended March 31, 3006, and two acquisitions effective as of April 1, 2006.

Acquisitions are recorded as of the purchase date, and are included in the consolidated financial statements from the date of acquisition. Adjustments to goodwill relate to new acquisitions, final purchase price allocations and translation adjustments due to changes in foreign currency exchange rates. Goodwill balances presented in the consolidated 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. The following acquisition summaries represent acquisitions from fiscal 2006 forward. Therefore, goodwill for each acquisition presented below does not aggregate to reported amounts. Goodwill recorded for acquisitions was $1,838 and $32,337 for the year ended March 31, 2006 and for the quarter ended June 30, 2006, respectively, translated at the exchange rate on each of those dates.

HLP:

On November 30, 2005, the Company acquired the capital stock of HL Planartechnik GmbH (“HLP”), a sensor company located in Dortmund, Germany. The total purchase price based on the November 30, 2005 exchange rate was $3,040 ($2,835 at close and $205 in acquisition cost). The sellers can earn up to an additional $3,517 if certain performance hurdles, specifically defined net sales, are achieved in calendar 2006. Based on the results of operations for the six months ended June 30, 2006, management estimates that the minimum performance target will not be achieved. The initial amounts of the transaction resulted in negative goodwill (the excess of fair value of net assets over cost), and at March 31, 2006, the Company had recorded $3,517 of the contingent consideration as a liability, which is the lesser of the maximum contingent consideration or negative goodwill as of the date of the acquisition based on preliminary purchase accounting. Effective April 1, 2006, the negative goodwill provision was reversed and purchase price reallocated to proportionately reduce the assigned values of acquired property, equipment and acquired intangible assets. Set forth below is the preliminary purchase price allocation related to the HLP acquisition prior to and after the recognition of the contingent consideration:

	Preliminary Allocation	Revised Allocation
Assets:		
Accounts receivable	$ 1,116	$ 1,116
Inventory	2,081	2,081
Property and equipment	4,228	1,490
Acquired intangible assets	1,684	616
Deferred income taxes	2,721	3,010
Other	284	284
	12,114	8,597
Liabilities:		
Accounts payable	(695)	(695)
Accrued compensation	(392)	(392)
Debt and other non-operational Liabilities	(4,193)	(4,193)
Negative goodwill provision	(3,517)	-
Other	(277)	(277)
	(9,074)	(5,557)
Total Purchase Price	$ 3,040	$ 3,040

The reduction in property, equipment and acquired intangible assets from the allocation of negative goodwill resulted in a reduction in monthly depreciation and amortization expense of approximately $47 and $25, respectively.

ATEX

On January 19, 2006, the Company completed the acquisition of Assistance Technique Experimentale (“ATEX”), a sensor company based outside of Paris, France, by acquiring all of the outstanding shares of ATEX stock. Founded in 2000, ATEX specializes in providing vibration sensors to the Formula One racing market. The total purchase price based on the January 19, 2006 exchange rates was $4,026 ($2,502 in cash, $74 in acquisition costs, deferred payment of $725, and the first earn-out payment accrual of $725). The selling shareholders have the potential to receive up to an additional $1,888 in three earn-out payments tied to sales growth objectives over the next three years and, if certain contingencies are resolved, these amounts will be recorded as an additional element of the cost of the acquisition. The first two earn-out payments were recorded and included in the total purchase price at June 30, 2006, because the satisfaction of the related sales growth objectives was considered probable. The Company’s preliminary purchase price allocation related to the ATEX acquisition follows:

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Assets:		
Cash	$	692
Accounts receivable		401
Inventory		117
Property and equipment		131
Acquired intangible assets		834
Goodwill		2,670
Other		31
		4,876
Liabilities:		
Accounts payable		(416)
Accrued compensation		(157)
Deferred income taxes		(277)
		(850)
Total Purchase Price	$	4,026

YSI

Effective April 1, 2006, the Company completed the acquisition of all of the capital stock of YSIS Incorporated ("YSI Temperature"), a division of YSI Incorporated, for $14,252 ($14,000 at close and $252 in acquisition costs). YSI Temperature manufactures a range of thermistors for automotive, medical, industrial and consumer goods applications. The transaction was financed with the Amended Credit Facility issued by a syndicate of lending institutions (See Note 7). The Company's preliminary purchase price allocation related to the YSI Temperature acquisition follows:

Assets:		
Accounts receivable	$	3,523
Inventory		1,662
Property and equipment		1,154
Acquired intangible assets		2,013
Goodwill		8,027
Other		1,048
		17,427
Liabilities:		
Accounts payable		(859)
Accrued compensation		(524)
Minority interest		(1,099)
Deferred income taxes		(693)
		(3,175)
Total Purchase Price	$	14,252

With the purchase of YSI Temperature, the Company acquired a 50 percent ownership interest in Nikisso-YSI, a joint venture in Japan. This joint venture is consolidated in the consolidated financial statement of the Company at June 30, 2006 and as part of the purchase accounting as a variable interest entity ("VIE") as defined by FIN 46(R), "Consolidation of Variable Interest Entities (revised December 2003), because YSI Temperature is determined to be the primary beneficiary of the VIE. Total assets and liabilities of the consolidated VIE at June 30, 2006 totaled $3,034 and $1,794, respectively. At June 30, 2006, the joint venture had amounts due from joint venture partner of $706 which represents funds held by Nikisso, the joint venture partner in a short-term interest bearing arrangement.

BetaTherm

Effective April 1, 2006, the Company completed the acquisition of all of the capital stock of BetaTHERM Group Ltd., a sensor company headquartered in Galway, Ireland ("BetaTHERM"), for $37,238 ($33,741 in cash at close, $1,787 deferred acquisition payments, $1,000 in Company shares and $710 in acquisition costs). Established in 1983, BetaTHERM manufactures precision thermistors used for temperature sensing in aerospace, biomedical, automotive, industrial and consumer goods applications. BetaTHERM has a U.S. sales office located in Massachusetts and a strategic partner located in northern China. The transaction was financed with the Amended Credit Facility issued by a syndicate of lending institutions (See Note 7). The Company's preliminary purchase price allocation related to the BetaTHERM acquisition follows:

Assets:
Cash