

MEASUREMENT SPECIALTIES INC

Form 10-Q

November 09, 2005

**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 SEPTEMBER 30, 2005**

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
(STATE OR OTHER JURISDICTION
OF
INCORPORATION OR
ORGANIZATION)**

**22-2378738
(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 13,712,880 shares of common stock, no par value per share, as of November 1, 2005.

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Part I. Financial Information

ITEM 1. FINANCIAL STATEMENTS

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

(Dollars in thousands, except per share amounts)	For the three months ended September 30,		For the six months ended September 30,	
	2005	2004	2005	2004
Net sales	\$ 44,405	\$ 36,211	\$ 84,912	\$ 64,231
Cost of goods sold	26,950	21,082	51,366	36,525
Gross profit	17,455	15,129	33,546	27,706
Operating expenses (income):				
Selling, general and administrative	9,118	8,474	19,405	15,748
Research and development	918	848	1,862	1,657
Customer funded development	(184)	(43)	(240)	(138)
Amortization of acquired intangibles	402	8	830	16
Total operating expenses	10,254	9,287	21,857	17,283
Operating income	7,201	5,842	11,689	10,423
Interest expense, net	486	108	958	97
Other expense (income)	(64)	67	(21)	50
Income before income taxes	6,779	5,667	10,752	10,276
Income taxes	2,434	1,613	3,472	2,927
Net income	\$ 4,345	\$ 4,054	\$ 7,280	\$ 7,349
Net income per common share - Basic	\$ 0.32	\$ 0.30	\$ 0.53	\$ 0.55
Net income per common share - Diluted	\$ 0.30	\$ 0.29	\$ 0.51	\$ 0.52
Weighted average shares outstanding - Basic	13,642,981	13,326,843	13,621,764	13,297,197
Weighted average shares outstanding - Diluted	14,293,355	14,188,500	14,293,723	14,168,655

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Dollars in thousands)	September 30, 2005	March 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,973	\$ 4,402
Accounts receivable, trade, net of allowance for doubtful accounts of \$516 and \$390, respectively	23,209	20,369
Inventories, net	23,304	20,282
Deferred income taxes	4,261	4,284
Prepaid expenses and other current assets	3,572	3,029
Total current assets	60,319	52,366
Property and equipment, net	16,210	14,924
Other assets:		
Goodwill	40,600	40,010
Acquired intangible assets, net	9,459	10,583
Deferred income taxes	6,429	7,190
Other assets	1,444	931
Total other assets	57,932	58,714
Total Assets	\$ 134,461	\$ 126,004

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Dollars in thousands, except share amounts)	September 30, 2005	March 31, 2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of promissory notes payable	\$ 1,000	\$ 1,200
Current portion of deferred acquisition payments	2,574	1,720
Short-term debt	2,941	2,085
Current portion of long-term debt	2,247	2,310
Accounts payable	17,140	13,394
Accrued expenses and other current liabilities	3,551	4,525
Accrued compensation	2,408	2,231
Income taxes payable	3,474	1,165
Deferred gain on sale of assets, current	1,418	2,925
Total current liabilities	36,753	31,555
Other liabilities:		
Deferred gain on sale of assets, net of current portion	-	839
Promissory notes payable, net of current portion	600	1,100
Long-term debt, net of current portion	17,753	18,928
Deferred acquisition payments, net of current portion	1,747	4,069
Other liabilities	2,387	1,497
Total liabilities	59,240	57,988
Shareholders' equity:		
Serial preferred stock; 221,756 shares authorized; none outstanding	-	-
Common stock, no par; 20,000,000 shares authorized; 13,712,880 and 13,257,084 shares issued and outstanding, respectively	5,502	5,502
Additional paid-in capital	57,773	56,285
Accumulated earnings	14,009	6,729
Accumulated other comprehensive loss	(2,063)	(500)
Total shareholders' equity	75,221	68,016
Total liabilities and shareholders' equity	\$ 134,461	\$ 126,004

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MEASUREMENT SPECIALTIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the six months ended September 30, 2005 and 2004
(UNAUDITED)

(Dollars in thousands)	Common stock	Additional paid-in capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total	Comprehensive Income
Balance, April 1, 2004	\$ 5,502	\$ 53,509	\$ (8,097)	\$ (74)	\$ 50,840	
Comprehensive income:						
Net income			7,349		7,349	\$ 7,349
Currency translation adjustment				(7)	(7)	(7)
Comprehensive income						\$ 7,342
Proceeds from exercise of stock options		573			573	
Tax benefit from exercise of stock options		279			279	
Balance, September 30, 2004	\$ 5,502	\$ 54,361	\$ (748)	\$ (81)	\$ 59,034	
Balance, April 1, 2005	\$ 5,502	\$ 56,285	\$ 6,729	\$ (500)	\$ 68,016	
Comprehensive income:						
Net income			7,280		7,280	\$ 7,280
Currency translation adjustment				(1,563)	(1,563)	(1,563)
Comprehensive income						\$ 5,717
Proceeds from exercise of stock options		1,031			1,031	
Tax benefit from exercise of stock options		457			457	
Balance, September 30, 2005	\$ 5,502	\$ 57,773	\$ 14,009	\$ (2,063)	\$ 75,221	

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Dollars in thousands)	For the six months ended September,	
	2005	2004
<u>Cash flows from operating activities:</u>		
Net income	\$ 7,280	\$ 7,349
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,900	1,402
Deferred rent	-	5
Amortization of deferred gain	(2,346)	(1,454)
Provision for doubtful accounts	-	238
Loss on disposal of fixed assets	(20)	151
Provision for inventory obsolescence	1,098	358
Deferred income taxes	732	1,777
Tax benefit on exercise of stock options	457	279
Net changes in operating assets and liabilities:		
Accounts receivable, trade	(2,974)	(2,656)
Inventories	(4,234)	(4,443)
Prepaid expenses and other current assets	(568)	1,089
Other assets	(480)	(191)
Accounts payable, trade	4,746	(322)
Accrued expenses and other liabilities	646	130
Accrued litigation expenses	-	(2,100)
Income taxes payable	2,009	394
Net cash provided by operating activities	9,246	2,006
<u>Cash flows from investing activities:</u>		
Purchases of property and equipment	(3,389)	(1,152)
Acquisition of business, net of cash acquired	(2,735)	(15,953)
Net cash used in investing activities	(6,124)	(17,105)
<u>Cash flows from financing activities:</u>		
Payments under short-term debt and notes payable	(6,406)	-
Borrowings under short-term debt	7,000	5,613
Payments on long-term debt	(1,788)	-
Payments on deferred acquisition payments	(1,400)	-
Proceeds from exercise of options	1,031	573
Net cash provided by (used in) financing activities	(1,563)	6,186
Effect of exchange rates	12	(2)
Net change in cash and cash equivalents	1,571	(8,915)
Cash and cash equivalents, beginning of year	4,402	19,274
Cash and cash equivalents, end of period	\$ 5,973	\$ 10,359
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 932	\$ 30
Income taxes	89	-
Noncash investing and financing transactions		
Notes from acquisitions	-	3,000

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Deferred acquisition payments	-	3,654
Purchases of property in accounts payable	-	230
Fair value of assets acquired less liabilities assumed	-	7,708

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MEASUREMENT SPECIALTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2005

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

1. BASIS OF PRESENTATION:

Interim financial statements:

The information presented as of September 30, 2005 and for the three and six month periods ended September 30, 2005 and 2004 is unaudited, and reflects 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 September 30, 2005 and the results of its operations and cash flows for the six month periods ended September 30, 2005 and 2004. The March 31, 2005 balance sheet information was derived from the audited consolidated financial statements for the year ended March 31, 2005.

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, 2005, which are included as part of the Company's Annual Report on Form 10-K.

Description of business:

Measurement Specialties, Inc. ("MSI" or the "Company") is a designer and manufacturer of sensors and sensor-based consumer products. The Company produces a wide variety of sensors that use advanced technologies to measure precise ranges of physical characteristics including pressure, position, force, vibration, humidity and photo-optics. The Company has two segments, a Sensor business and a Consumer Products business.

The Sensor segment designs and manufactures sensors for original equipment manufacturers and end users. These sensors are used for automotive, medical, consumer, military/aerospace and industrial applications. The Company's sensor products include pressure and electromagnetic displacement sensors, transducers and sensors piezoelectric polymer film sensors, custom microstructures, load cells, accelerometers, optical sensors and humidity sensors.

The Consumer Products segment designs and manufactures sensor-based consumer products primarily as an original equipment manufacturer (OEM) that are sold to retailers and distributors primarily in the United States and Europe. Consumer products include bathroom and kitchen scales, tire pressure gauges and distance estimators.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation:

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The consolidated financial statements include the accounts of Measurement Specialties, Inc. and its wholly-owned subsidiaries (the "Subsidiaries").

The Company has made the following acquisitions which are included in the consolidated financial statements as of the effective date of acquisition (See Note 7):

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 Sensorik")	January 1, 2005	Germany
Polaron Components Ltd	February 1, 2005	United Kingdom

Elekon, Entran, Humirel and MWS Sensorik are wholly-owned subsidiaries of the Company.

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

Reclassifications:

The presentation of certain prior year information has been reclassified to conform with the current year financial statement 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 for the three or six months ended September 30, 2005 and 2004, as a result of options issued. The table below illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of FASB Statement 123, *Accounting for Stock-Based Compensation*.

	For the three months ended September 30,		For the six months ended September 30,	
	2005	2004	2005	2004
Net income, as reported	\$ 4,345	\$ 4,054	\$ 7,280	\$ 7,349
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	-	-	-	-
Deduct: Total stock-based employee compensation				