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MEASUREMENT SPECIALTIES INC

Form 10-K

June 14, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

FOR THE FISCAL YEAR ENDED MARCH 31, 2005  
OR

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

FOR THE TRANSITION PERIOD FROM TO

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)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (757) 766-1500

10 WASHINGTON AVENUE, FAIRFIELD, NEW JERSEY 07004-3877  
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST  
REPORT)

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS;       | NAME OF EACH EXCHANGE                           |
|----------------------------|---|
| COMMON STOCK, NO PAR VALUE | ON WHICH REGISTERED:<br>AMERICAN STOCK EXCHANGE |

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE ACT: NONE

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 75 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. No

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes [ X ] No [ \_ ]

At March 31, 2005, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately \$248,000,000 based on the closing price of the registrant's common stock on March 31, 2005.

At May 31, 2005, 13,578,869 shares of the registrant's common stock were outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

THE INFORMATION REQUIRED TO BE FURNISHED PURSUANT TO PART III OF THIS FORM 10-K IS SET FORTH IN, AND IS HEREBY INCORPORATED BY REFERENCE HEREIN FROM, THE REGISTRANT'S DEFINITIVE PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON SEPTEMBER 13, 2005 TO BE FILED BY THE REGISTRANT WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO REGULATION 14A NOT LATER THAN 120 DAYS AFTER THE FISCAL YEAR ENDED MARCH 31, 2005.

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## PART I

### ITEM 1. BUSINESS

#### INTRODUCTION

#### NOTES:

(1) AS MORE FULLY DESCRIBED BELOW UNDER "CHANGES TO OUR BUSINESS," WE DISCONTINUED CERTAIN OF OUR BUSINESSES DURING THE FISCAL YEAR ENDED MARCH 31, 2003, AND SOLD ASSETS DURING THE FISCAL YEARS ENDED MARCH 31, 2003 AND 2004. EXCEPT AS OTHERWISE NOTED, THE DESCRIPTIONS OF OUR BUSINESS, RESULTS AND OPERATIONS CONTAINED IN THIS REPORT REFLECT ONLY OUR CONTINUING OPERATIONS.

(2) ALL DOLLAR AMOUNTS IN THIS REPORT ARE IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND PRODUCT PRICES.

We are a designer and manufacturer of sensors and sensor-based consumer products. We produce a wide variety of sensors that use advanced technologies to measure precise ranges of physical characteristics, including pressure, force, position, vibration, humidity and photo optics. We have two businesses, a Sensor business and a Consumer Products business. We are a New Jersey corporation organized in 1981 with corporate offices located in Hampton, Virginia.

Our Sensor segment designs and manufactures sensors for original equipment manufacturers (OEMs) and end users. These sensors are used for automotive, off-road, medical, industrial, consumer, military, aerospace, test and measurement and traffic applications. Our sensor products include piezoresistive pressure sensors and transducers, electromagnetic displacement sensors, piezoelectric polymer film sensors, tilt sensors, membrane switch panel sensors, custom microstructures, load cells, humidity sensors, accelerometers, photo optic components and pulse oximetry sensors.

Our Consumer Products segment designs and manufactures sensor-based consumer products. Our sensor-based consumer bath and kitchen scale products are sold and marketed primarily under the brand names of our original equipment manufacturer customers. Our tire pressure gauges and distance measurement products are sold and marketed under our own brand names -Accutire(R) pressure gauges, ParkZone(R) garage parking aids and Accutape(R) distance measurers - as well as those of our OEM and private label customers.

#### OUR 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.

Each of our two businesses benefits from the same core technology base. Our advanced technologies include piezoresistive silicon sensors, application-specific integrated circuits, micro-electromechanical systems (MEMS), piezoelectric polymers, foil strain gauges, force balance systems, fluid

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capacitive devices, linear and rotational variable differential transformers, electromagnetic displacement sensors and ultrasonic sensors. These technologies allow our sensors to operate precisely and cost effectively.

We are a global operation with engineering and manufacturing facilities located in North America, Europe and Asia. By functioning globally, we have been able to enhance our applications engineering capabilities, increase our geographic proximity to our customers and leverage our cost structure.

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### RECENT ACQUISITIONS

We have made the following acquisitions which are included in the consolidated financial statements as of the effective date of acquisition (See Notes 2 and 5 to the Consolidated Financial Statements of the Company included in this Annual Report on Form 10-K):

| ACQUIRED COMPANY<br>COUNTRY                                     | EFFECTIVE DATE OF ACQUISITION |
|---|-------------------------------|
| Elekon Industries USA, Inc. ("Elekon")<br>USA                   | June 24, 2004                 |
| Entran Devices, Inc. and Entran SA ("Entran")<br>USA and France | July 16, 2004                 |
| Encoder Devices, LLC ("Encoder Devices")<br>USA                 | July 16, 2004                 |
| Humirel, SA ("Humirel")<br>France                               | December 1, 2004              |
| MWS Sensorik GmbH ("MWS Sensorik")<br>Germany                   | January 1, 2005               |
| Polaron Components Ltd. ("Polaron")<br>United Kingdom           | February 1, 2005              |

These acquisitions increased our revenues, technology base, share of the addressable sensor marketplace and presence in Europe. The largest of these acquisitions was Humirel, a Toulouse, France-based company with a proprietary technology for measuring relative humidity, a new platform for the company. Humirel's OEM customers in the automotive, industrial and medical marketplaces are synergistic with our existing customer base.

Entran, with operations in the United States and France, increased our business with end users who purchase miniature pressure transducers, accelerometers and load cells for test and measurement applications. Elekon brought to the company a new technology platform with photo optic and X-ray sensing as well as an established customer base for pulse oximetry (SpO2) sensors. Encoder Devices, a start-up company, offered us an emerging technology platform in magnetic encoders - a robust, low cost capability well suited to our OEM customer base.

Two smaller acquisitions further added to our capabilities in Europe. MWS Sensorik had been a distributor and value-added reseller of our piezoresistive accelerometers and pressure sensors in Germany with a solid customer base in the auto crash and road test market. We also acquired certain assets of Polaron, reuniting us with the foil strain gage pressure business formerly owned by Schaevitz and providing an additional customer base in Europe.

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### GROWTH STRATEGY

We plan to continue focusing our efforts on aggressively growing our Sensor segment, which management believes has greater growth potential and higher returns than the Consumer business. The majority of this growth over the next year will be organic, the result of several promising proprietary technologies that are gaining wider adoption in the marketplace. While we do not rule out additional acquisitions in the future, management is currently focused on integrating recent acquisitions and leveraging the inherent synergies for sales and marketing, engineering and manufacturing.

We are building strength in both our OEM and end user business for Sensors. Historically, our growth has been derived from, and will continue to derive from, OEM projects with longer development cycles, in which our sensors are designed into another product. However, some of the recent acquisitions - most notably Entran, but also MWS and Polaron - serve primarily end user customers. This new strength, coupled with our traditional Schaevitz linear and rotary displacement business, provides a solid platform on which to build end user sales. This market includes test and measurement applications as well as manufacturing and industrial process control. Devices sold to end users are packaged products (sensor elements with amplification, compensation and sometimes value-add assemblies) which carry a higher average selling price.

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We recently organized our Sensor engineering resources into seven technology families: pressure, position, force, vibration, humidity, photo optics and piezo film. This flexible and scalable structure enables us to readily assimilate acquisitions, prioritize engineering resources and ultimately respond better to market opportunities in key industries. This new organization gives our global sales force a clear line of sight to the resources it needs to qualify and develop promising new OEM projects. The Company continues to operate under two distinct business segments, Sensor and Consumer, and overall management within these two segments is aligned geographically between North America, Europe/Middle East and Asia.

In the Consumer Products segment, our consumer scale business is focused on the design, development and manufacture of innovative scale products for sale to our worldwide base of OEM customers. In fiscal year 2004, we exited the retail scale business by selling our Thinner(R) branded bathroom and kitchen scale business to Conair Corporation. For digital tire pressure gauges, we design and manufacture products for OEM customers as well as for sale at retail under the Accutire(R) brand.

### MARKETS

Many aspects of day-to-day life continue to be profoundly influenced by the pervasive application of sensors to transportation, energy, security, communications and medical technologies. Sensor manufacturers are moving toward more sophisticated sensor packages called "smart sensors" that take advantage of new lower cost digital based electronics to provide more accurate measurement and control.

The shift toward sensors utilizing digital signal processing technologies has enhanced applications in the automotive, industrial, medical, military and consumer products markets. Examples of our sensor applications include:

- automotive and off-road applications in braking for electronic stability control, occupant safety, fogging prevention, transmission fluid level, oil pressure, diesel engine management, off-road equipment leveling and security sensing;

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- industrial sensors for regulating flow in paint sprayers and agricultural equipment, monitoring pressure in heating, ventilating, air conditioning & refrigeration compressors, flow measurement, factory automation, high purity wafer fab flow control, and process control valves such as those used in turbines for power generation equipment;
- medical sensors for invasive blood pressure measurement, drug infusion pump flow monitoring, electronic stethoscopes, vascular health diagnostics, sleep apnea sensing, and ultrasound bone density, kidney dialysis, environmental monitoring for patient breathing and body activity sensor for implantable heart pacemakers;
- military and aerospace applications, which continue to drive sensor development with new systems requiring small, high performance sensors for navigation and weapons control systems, pressure monitoring, hydrophones and traffic collision avoidance systems (TCAS)
- consumer products applications including the measurement of weight, distance, and movement; digitizing information for electronic white boards and pen input devices for laptops; acoustic pick-ups for musical instruments and directional speakers; and load imbalance sensors for washing machines;
- test and measurement applications including automotive crash accelerometers, high-accuracy position transducers and miniature pressure force and acceleration sensors used to verify system design and performance;
- commercial and building equipment including: flow measurement of dispensed beverages, gasoline pump monitoring, ATM currency control, elevator feedback, oxygen systems in hospitals, and security for stand alone equipment;
- traffic sensors used for real time traffic monitoring, weigh-in-motion, vehicle speed and red light enforcement and toll booth collection monitoring.

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### TECHNOLOGY

Measurement Specialties, Inc. has a broad and robust portfolio of technologies available to solve client sensing needs, some of which are proprietary to the Company. Our sensor technologies include:

- PIEZORESISTIVE TECHNOLOGY is widely used for the measurement of pressure, load and acceleration, and its use in these applications is expanding significantly. Piezoresistive materials, most often silicon, respond to changes in applied mechanical variables such as stress, strain, or pressure by changing electrical conductivity (resistance). Changes in electrical conductivity can be readily detected in circuits by changes in current with a constant applied voltage, or conversely by changes in voltage with a constant supplied current.
- APPLICATION SPECIFIC INTEGRATED CIRCUITS (ASICS). These circuits convert analog electrical signals into digital signals for measurement, computation or transmission. Application specific integrated circuits are well suited for use in both consumer and new sensor products because they can be designed to operate from a

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relatively small power source and are inexpensive and can improve system accuracy.

- MICRO-ELECTROMECHANICAL SYSTEMS (MEMS). Micro-electromechanical systems and related silicon micromachining technology are used to manufacture components for physical measurement and control. Silicon micromachining is an ideal technology to use in the construction of miniature systems involving electronic, sensing, and mechanical components because it is inexpensive and has excellent physical properties. Micro-electromechanical systems have several advantages over their conventionally manufactured counterparts. For example, by leveraging existing silicon manufacturing technology, microelectromechanical systems allow for the cost-effective manufacture of small devices with high reliability and superior performance.
- PIEZOELECTRIC POLYMER TECHNOLOGY. Piezoelectric materials (such as PVDF) convert mechanical stress or strain into proportionate electrical energy, and conversely, these materials mechanically expand or contract when voltages of opposite polarities are applied. Piezoelectric polymer films are also pyroelectric, converting heat into electrical charge. These polymer films offer unique sensor design and performance opportunities because they are thin, flexible, inert, broadband, and relatively inexpensive. This technology is ideal for applications where the use of rigid sensors would not be possible or cost-effective.
- STRAIN GAUGE TECHNOLOGY. A strain gauge consists of a base substrate material that will change its electrical properties with induced stress or strain (such as bulk silicon). The foil is etched to produce a grid pattern that is sensitive to changes in geometry, usually length, along the sensitive axis producing a change in resistance. The gauge is bonded to a sensing element surface which it will monitor. The gauge operates through a direct conversion of strain to a change in gauge resistance. This technology is useful for the construction of reliable pressure and force sensors. The Company also manufactures a proprietary strain gauge called Microfused(TM) in which the diaphragm in contact with the media is fused to a silicon sensing element with glass at high temperatures for a hermetic seal appropriate for harsh environments.
- FORCE BALANCE TECHNOLOGY. A force-balanced accelerometer is a mass referenced device that under the application of tilt or linear acceleration, detects the resulting change in position of the internal mass by a position sensor and an error signal is produced. This error signal is passed to a servo amplifier and a current developed is fed back into a moving coil. This current is proportional to the applied tilt angle or applied linear acceleration and will balance the mass back to its original position. These devices are used in military and industrial applications where high accuracy is required.
- FLUID CAPACITIVE TECHNOLOGY. This technology is also referred to as fluid filled, variable capacitance. The output from the sensing element is two variable capacitance signals per axis.

Rotation of the sensor about its sensitive axis produces a linear change in capacitance. This change in capacitance is electronically converted into angular data, and provides the user with a choice of ratiometric, analog, digital, or serial output signals. These signals

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can be easily interfaced to a number of readout and/or data collection systems.

- LINEAR VARIABLE DIFFERENTIAL TRANSFORMERS (LVDT). An LVDT is an electromechanical sensor that produces an electrical signal proportional to the displacement of a separate movable core. LVDTs are widely used as measurement and control sensors wherever displacements of a few micro inches to several feet can be measured directly, or where mechanical input, such as force or pressure, can be converted into linear displacement. LVDTs are capable of extremely accurate and repeatable measurements in severe environments.
- HUMIDITY. Humidity technology is based upon variable capacitive affecting a sensitive polymer layer under changing ambient humidity conditions. This technology is uniquely designed for applications in consumer markets, automotive, home appliance and environmental control.
- PHOTO OPTICS. Photo-Optic sensors use light to measure different parameters such as position, reflectance, color and many others. At present our main application is in non-invasive medical sensing, specifically Pulse-Oximetry.
- ULTRASONIC TECHNOLOGY. Ultrasonic sensors measure distance by calculating the time delay between transmitting and receiving an acoustic signal that is inaudible to the human ear. This technology allows for the quick, easy, and accurate measurement of distances between two points without physical contact.

### BUSINESS SEGMENTS

Our financial results by our two business segments for the fiscal years ended March 31, 2005, 2004 and 2003 are presented in Note 16 to the consolidated financial statements included in this Annual Report on Form 10-K.

### PRODUCTS

**SENSORS.** A summary of our Sensor business product offerings as of March 31, 2005 is presented in the following table. New products acquired or developed in the last year are highlighted with an asterisk\*.

| PRODUCT<br>-----                    | TECHNOLOGY<br>-----                                      | APPLICATIONS   |
|-------------------------------------|--|--|
| PRESSURE SENSORS<br>AND TRANSDUCERS | Micro-<br>Electromechanical<br>Systems (MEMS)            | Disposable catheter blood pressure,<br>altimeter, dive tank pressure, process<br>instrumentation, fluid level, measurement<br>and intravenous drug administration<br>monitoring, racing engine performance |
|                                     | Microfused(TM)<br>Piezoresistive Silicon<br>Strain Gauge | Automotive electronic stability control<br>systems, paint spraying machines, fertilizer<br>dispensers, hydraulics, refrigeration and<br>automotive transmission  |
|                                     | Foil Strain Gauge  | Instrumentation-grade aerospace and<br>weapon control systems, sub-sea<br>pressure, ship cargo level, steel mills  |



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|  |  |   |
|--|--|---|
| ACCELEROMETERS   | Piezoelectric Polymer                                    | Cardiac activity sensors, audio speaker feedback, appliance load balancing  |
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|  | Micro-Electromechanical Systems (MEMS)                   | Crash test sensors, anthropomorphic dummy sensors, road load dynamics, aerospace traffic alert and collision avoidance systems, instrumentation |
| LOAD CELLS   | Microfused(TM)<br>Piezoresistive Silicon<br>Strain Gauge | Automotive occupancy weight sensing, bathroom scales, exercise equipment, appliance monitoring, intravenous drug administration monitoring      |
| LINEAR VARIABLE<br>DISPLACEMENT<br>TRANSDUCERS<br>(LVDT) | Inductive<br>Electromagnetic                             | Aerospace, machine control systems, knitting machines, industrial process control, hydraulic actuators, instrumentation                         |
| ROTARY POSITION<br>TRANSDUCERS AND<br>ENCODERS*          | Inductive<br>Electromagnetic                             | Machine control systems, instrumentation  |
|  | Magnetic Encoders*                                       | Gas pump , dialysis machine controls  |
| TILT/ANGLE SENSORS                                       | Fluid Capacitive   | Heavy equipment level measurement, auto security systems, tire balancing, instrumentation   |
| RELATIVE HUMIDITY &<br>TEMPERATURE<br>SENSORS*           | Capacitive Film  | Auto anti-fogging systems, diesel engine controls, air climate systems, reprography machines, sleep apnea breathing apparatus                   |
| TRAFFIC SENSORS  | Piezoelectric Polymer                                    | Traffic survey, speed and traffic light enforcement, toll, and truck weigh-in-motion  |
| CUSTOM PIEZOELECTRIC<br>FILM SENSORS                     | Piezoelectric Polymer                                    | Medical diagnostics, ultrasonic pen digitizers, musical instrument pickups, electronic stethoscope, security systems, electronic water meters   |
| PULSE OXIMETRY<br>SENSORS (SPO2)*                        | Photo optic infra-red<br>light absorption                | Reusable and disposable patient blood oxygen and pulse sensors  |
| X-RAY DETECTION*   | X-ray sensor arrays                                      | Security systems, medical CT scanners   |

CONSUMER PRODUCTS. A summary of our sensor-based consumer products as of March 31, 2005 is presented in the following tables. Our scales are sold on an OEM basis to manufacturers who sell them at retail under their own brand names. Our tire pressure gauges are sold direct to retailers under our own brand names as well as to OEMs under their own brand names.

| PRODUCT | TECHNOLOGY | TYPES OF PRODUCTS | RETAIL PRICE RANGE |
|---------|------------|-------------------|--------------------|
|---------|------------|-------------------|--------------------|

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| PRODUCT | TECHNOLOGY   | BRAND NAME                           | TYPES OF PRODUCTS | RETAIL PRICE RANGE |
|---------|--|--------------------------------------|-------------------|--------------------|
| SCALES  | Piezoresistive, Application Specific Integrated Circuits (ASICs) | Bathroom Scales                      |                   | \$ 5.00-60.00      |
|         |  | Kitchen (Food) Scales                |                   | \$ 3.00-25.00      |
|         |  | Sportsmen (Hunting & Fishing) Scales |                   | \$ 15.00 - \$30.00 |

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| PRODUCT                       | TECHNOLOGY                  | BRAND NAME  | TYPES OF PRODUCTS                           | RETAIL PRICE RANGE |
|-------------------------------|-----------------------------|-------------|---|--------------------|
| TIRE PRESSURE GAUGES          | Piezoresistive Strain Gauge | Accutire(R) | Digital and Mechanical Tire Pressure Gauges | \$ 1.99-\$60.00    |
| DISTANCE MEASUREMENT PRODUCTS | Ultrasonic                  | Accutape(R) | Interior Distance Estimator                 | \$ 13.00-22.00     |
|                               |                             | ParkZone(R) | Garage Parking Distance Estimator           | \$15.00 - \$30.00  |

### CUSTOMERS

We sell our sensor products throughout the world. Our Sensor business designs, manufactures and markets sensors for original equipment manufacturer applications and for end users who use them for instrumentation and test applications. Our extensive customer base consists of manufacturers of electronic, automotive, medical, military, industrial and consumer products. One of our Sensor business customers, a large OEM automotive supplier, accounted for approximately 10% of our net sales during fiscal 2005, and during 2004 and 2003, no one customer represented more than 10% of our net sales.

Our Consumer Products business customers are primarily retailers, resellers, or manufacturers of consumer products in the United States and Europe. With the sale of our Thinner(R) brand to Conair on January 30, 2004, our volume to Conair increased to approximately 10% of net sales during fiscal 2005. No other Consumer Products customer accounted for more than 10% of our net sales during the last three fiscal years.

### SALES AND DISTRIBUTION

We sell our sensor products through a combination of experienced regional sales managers (typically degreed engineers), distributors and generally exclusive sales relationships with outside sales representatives throughout the world. Our engineering teams work directly with our global customers to tailor our sensors to meet their specific application requirements.

As a result of the sale of our Thinner(R) brand to Conair in FY 2004, our sensor-based consumer bath and kitchen scale products are now sold and marketed

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under the brand names of our original equipment manufacturer customers. Our tire pressure gauges and distance measurement products are sold and marketed under our own brand names, as well as those of our OEM and private label customers.

We sell our products primarily in North America and Western Europe. The international component of our sales has grown with recent acquisitions. In addition, the growing Asian market represents a significant opportunity for our business. Sales into foreign countries accounted for 33% of net sales for the fiscal year ended March 31, 2005, 31.3% of net sales for the fiscal year ended March 31, 2004, and 24% of net sales for the fiscal year ended March 31, 2003.

### SUPPLIERS

We rely on contract manufacturers for a significant portion of our consumer-finished products and for our photo optic sensors sold in the medical marketplace. The majority of our sensor-based consumer products are assembled by a single contract manufacturer located in China. We utilize alternative manufacturers located in China to assemble additional sensor-based consumer products. We also source our assembly of photo optic products from a single contract manufacturer, with whom we have a contractual relationship. We procure components and finished products as needed, through purchase orders. We believe that the components we utilize could be obtained from alternative sources, or that our products could be redesigned to use alternative suppliers' components, if necessary.

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### RESEARCH AND DEVELOPMENT

Our research and development efforts are focused on expanding our core technologies, improving our existing products, developing new products, and designing custom sensors for specific customer applications. To maintain and improve our competitive position, our research, design, and engineering teams work directly with customers to design custom sensors for specific applications. Our gross research and development expenses, including customer funded projects, were \$ 3,468, or 2.5% of net sales, for the fiscal year ended March 31, 2005; \$3,468, or 3.1% of net sales, for the fiscal year ended March 31, 2004; and \$3,594, or 3.3% of net sales, for the fiscal year ended March 31, 2003. Research and development expenses for our Sensor business were \$2,130, or 2.3% of net sales of our Sensor business, for the fiscal year ended March 31, 2005; \$2,085, or 3.5% of net sales of our Sensor business, for the fiscal year ended March 31, 2004; and \$2,191, or 4.2% of net sales of our Sensor business, for the fiscal year ended March 31, 2003. Included in gross research and development was \$268 , \$4 and \$367 of customer funded development for the fiscal years ended March 31, 2005, 2004, and 2003, respectively.

Research and development expenses in the Consumer Products business were \$1,338, or 2.7% of net sales for the fiscal year ended March 31, 2005; \$1,383, or 2.6% of net sales for the fiscal year ended March 31, 2004; \$1,403, or 2.5% of net sales for the fiscal year ended March 31, 2003.

### COMPETITION

The global market for sensors includes many diverse products and technologies, is highly fragmented and subject to moderate pricing pressures. Our piezoresistive, MEMS and Microfused(TM) pressure sensing technologies compete directly within the largest and fastest growing segments in the global market for industrial pressure sensors. Most of our Sensor business competitors are small companies or divisions of large corporations such as Danaher, Motorola,

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Siemens, General Electric and Honeywell. The principal elements of competition in the sensor market are production capability, price, quality, service, and the ability to design unique applications to meet specific customer needs.

The market for sensor-based consumer products is characterized by frequent introductions of competitive products and pricing pressures. Recently, a number of brand name scale companies have been acquired by larger brand name companies or by Asian original equipment manufacturers. The principal elements of competition in the sensor-based consumer products market are price, quality and the ability to introduce new and innovative products.

Although we believe that we compete favorably in our Sensor and Consumer Products businesses, new product introductions by our competitors could cause a decline in sales or loss of market acceptance for our existing products. If competitors introduce more technologically advanced products, the demand for our products would likely be reduced.

### INTELLECTUAL PROPERTY

We rely in part on patents to protect our intellectual property. We own 79 United States utility patents, 32 United States design patents, and 45 foreign patents to protect our rights in certain applications of our core technology. We have 37 United States patent applications pending, including provisionals. These patent applications may never result in issued patents. Even if these applications result in patents being issued, taken together with our existing patents, they may not be sufficiently broad to protect our proprietary rights, or they may prove unenforceable. We have not obtained patents for all of our innovations, nor do we plan to do so.

We also rely on a combination of copyrights, trademarks, service marks, trade secret laws, confidentiality procedures, and licensing arrangements to establish and protect our proprietary rights. In addition, we seek to protect our proprietary information by using confidentiality agreements with certain employees, sales representatives, consultants, advisors, customers and others. We cannot be certain that these agreements will adequately protect our proprietary rights in the event of any unauthorized use or disclosure, that our employees, sales representatives, consultants, advisors, customers or others will maintain the confidentiality of such proprietary information, or that our competitors will not otherwise learn about or independently develop such proprietary information.

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Despite our efforts to protect our intellectual property, unauthorized third parties may copy aspects of our products, violate our patents or use our proprietary information. In addition, the laws of some foreign countries do not protect our intellectual property to the same extent as the laws of the United States. The loss of any material trademark, trade name, trade secret, patent right, or copyright could harm our business, results of operations and financial condition.

We believe that our products do not infringe on the rights of third parties. However, we cannot be certain that third parties will not assert infringement claims against us in the future or that any such assertion will not result in costly litigation or require us to obtain a license to third party intellectual property. In addition, we cannot be certain that such licenses will be available on reasonable terms or at all, which could harm our business, results of operations and financial condition.

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### FOREIGN OPERATIONS

We manufacture the majority of our sensor products, and most of our sensor subassemblies used in our consumer products, in leased premises located in Shenzhen, China. Sensors are also manufactured at our U.S. facilities in Hampton, VA, San Jose, CA, and Torrance, CA, as well as our European facilities in Toulouse, France, Les Clayes-sous-Bois, France and Pfaffenhofen, Germany. Additionally, certain key management, sales and engineering activities are conducted at leased premises in Wayne, PA, Aliso Viejo, CA and in Hong Kong. Our pulse oximetry sensors are sourced from a single supplier, Opto Circuits India Limited, ("Opto"), in Karnataka, India. As discussed in Note 10 to the Consolidated Financial Statements included in this Annual Report on Form 10-K, Opto is partially owned by Messrs. Thomas Dietiker and Jay Patel, employees of the Company. Substantially all of our consumer products are assembled in China, primarily by a single supplier, River Display, Ltd. ("RDL"), although we also utilize alternative assemblers in China. There are no agreements which would require us to make minimum payments to Opto or RDL, nor is Opto or RDL obligated to maintain capacity available for our benefit, though we account for a significant portion of both Opto and RDL's revenues. Additionally, most of our products contain key components that are obtained from a limited number of sources. These concentrations in external and foreign sources of supply present risks of interruption for reasons beyond our control, including political and other uncertainties regarding Hong Kong and China.

The Chinese government has continued to pursue economic reforms hospitable to foreign investment and free enterprise, although the continuation and success of these efforts is not assured. Our operations could be adversely affected by changes in Chinese laws and regulations, including those relating to taxation and currency exchange controls, by the imposition of economic austerity measures intended to reduce inflation, and by social and political unrest. China became a member of World Trade Organization (WTO) on December 11, 2001. Such membership requires China and other members of the WTO to grant one another reciprocal "Normal Trade Relations" (NTR) status (formerly known as Most Favored Nation). Accordingly, China's preferred trading status with the United States (and other WTO members) is no longer subject to annual review and Chinese goods exported to the United States are subject to a low tariff and receive other favorable treatment.

The continued stability of political, legal, economic or other conditions in Hong Kong cannot be assured. No treaty exists between Hong Kong and the United States providing for the reciprocal enforcement of foreign judgments. Accordingly, Hong Kong courts may not enforce judgments predicated on the laws of the United States, whether arising from actions brought in the United States or, if permitted, in Hong Kong.

Most of our revenues are priced in United States dollars. Most of our costs and expenses are priced in United States dollars, with the remaining priced in Chinese renminbi, Euros and Hong Kong dollars. Accordingly, the competitiveness of our products relative to products produced locally (in foreign markets) may be affected by the performance of the United States dollar compared with that of our foreign customers' currencies. United States sales were \$68,555, \$77,537 and \$81,795, or 48.6%, 68.7% and 76.0% of net sales, for the fiscal years ended March 31, 2005, 2004 and 2003, respectively. Sales from our foreign facilities were \$72,386, \$35,276, and \$25,882 or 51.4%, 31.3% and 24.0% of net sales, for the fiscal years ended March 31, 2005, 2004, and 2003, respectively. We are exposed to foreign currency transaction and translation losses, which might result from adverse fluctuations in the value of the Euro, Hong Kong dollar and Chinese renminbi.

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At March 31, 2005, we had net assets of \$48,009 in the United States. At March 31, 2005, we had net assets of \$49 in Europe, subject to fluctuations in the value of the Euro against the dollar. At March 31, 2005, we had net assets of \$9,503 in Hong Kong subject to fluctuations in the value of the Hong Kong dollar and net assets of \$10,455 in China subject to fluctuations in the value of the Chinese renminbi. We had net assets of \$23,893 and \$7,088 in the United States, at March 31, 2004 and 2003, respectively. At March 31, 2004 and March 31, 2003, we had no net assets in Europe. At March 31, 2004, we had net assets of \$4,836 in Hong Kong subject to fluctuations in the value of the Hong Kong dollar and net assets in China of \$7,330 subject to fluctuations in the value of the Chinese renminbi. At March 31, 2003, we had net liabilities of \$2,045 in Hong Kong subject to fluctuations in the value of the Hong Kong dollar and net assets of \$13,743 in China subject to fluctuations in the value of the Chinese renminbi.

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 United States dollar. However, there can be no assurance that the value of the Hong Kong dollar will continue to be tied to that of the United States dollar. China adopted a floating currency system on January 1, 1994, unifying the market and official rates of foreign exchange. China approved current account convertibility of the Chinese renminbi on July 1, 1996, followed by formal acceptance of the International Monetary Fund's Articles of Agreement on December 1, 1996. These regulations eliminated the requirement for prior government approval to buy foreign exchange for ordinary trade transactions, though approval is still required to repatriate equity or debt, including interest thereon. The Chinese government is currently reevaluating its foreign currency policy, and there have been indications, as reported widely in the news media, that the Chinese government may in fact allow the Chinese renminbi to revalue in the foreseeable future. Based on the net exposure of renminbi to US dollars for the fiscal year ended March 31, 2005, we estimate a negative operating income impact of \$135 for every 1% appreciation in renminbi against US dollar (assuming no associated cost increases or currency hedging).

Based on the net exposures of Euros to the US dollars for the fiscal year ended March 31, 2005, we estimate a positive operating income impact of \$95 for every 1% appreciation in Euros relative to the US dollar (assuming no associated cost increases or currency hedging).

There can be no assurance that these currencies will remain stable or will fluctuate to our benefit. To manage our exposure to potential foreign currency, transaction and translation risks, we may purchase currency exchange forward contracts, currency options, or other derivative instruments, provided such instruments may be obtained at suitable prices. We acquired a number of foreign exchange currency contracts with the purchase of Humirel, as disclosed in Note 5 to the Consolidated Financial Statements in this Annual Report on Form 10-K.

### EMPLOYEES

As of March 31, 2005, we had 1,903 employees, including 213 in the United States, 150 in the European Union, and 1,540 in Asia. As of March 31, 2005, 1,485 employees were engaged in manufacturing, 145 were engaged in administration, 80 were engaged in sales and marketing and 193 were engaged in engineering.

Our employees in the U.S. and Asia are not covered by collective bargaining agreements. The majority of our employees in the European Union are covered by collective bargaining agreements. We believe our employee relations are

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satisfactory.

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### ENVIRONMENTAL MATTERS

We are subject to comprehensive and changing foreign, federal, state, and local environmental requirements, including those governing discharges to the air and water, the handling and disposal of solid and hazardous wastes, and the remediation of contamination associated with releases of hazardous substances. We believe that we are in compliance with current environmental requirements. Nevertheless, we use hazardous substances in our operations, and as is the case with manufacturers in general, if a release of hazardous substances occurs on or from our properties, we may be held liable, and may be required to pay the cost of remedying the condition. The amount of any resulting liability could be material.

### BACKLOG

At March 31, 2005, the dollar amount of backlog orders believed to be firm was approximately \$46,069. Acquisitions account for \$9,921 of this backlog. We include in backlog orders that have been accepted from customers that have not been filled or shipped and are supported with a purchase order. It is expected that the majority of these orders will be shipped during the next 12 months. At March 31, 2004, our backlog of unfilled orders was approximately \$27,200. All orders are subject to modification or cancellation by the customer with limited changes. We believe that backlog may not be indicative of actual sales for the current fiscal year or any succeeding period.

### SEASONALITY

Our Consumer Products sales are seasonal, with highest sales during the second and third fiscal quarters. There is no significant seasonality to our Sensor sales.

### AVAILABLE INFORMATION

We maintain an Internet website at the following address: [www.msiusa.com](http://www.msiusa.com). The information on our website is not incorporated by reference into this Annual Report on Form 10-K.

We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the Securities and Exchange Commission (the "SEC") in accordance with the Securities Exchange Act of 1934. These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

### FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. Forward looking statements may be identified by such words or phrases as "believe," "expect," "intend," "estimate," "anticipate," "project," "will," "may" and similar expressions. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements. The forward-looking statements below are not guarantees of future performance

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and involve a number of risks and uncertainties. Factors that might cause actual results to differ materially from the expected results described in or underlying our forward-looking statements include:

- Conditions in the general economy and in the markets served by us;
- Competitive factors, such as price pressures and the potential emergence of rival technologies;
- Interruptions of suppliers' operations or the refusal of our suppliers to provide us with component materials;
- Timely development, market acceptance and warranty performance of new products;
- Changes in product mix, costs and yields and fluctuations in foreign currency exchange rates;
- Uncertainties related to doing business in Europe, Hong Kong and China;
- The continued decline in the European consumer products market;
- A decline in the United States consumer products market;

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- Legal proceedings described below under "Item 3 - Legal Proceedings"; and
- The risk factors listed from time to time in our SEC reports.

This list is not exhaustive. Except as required under federal securities laws and the rules and regulations promulgated by the SEC, we do not have any intention or obligation to update publicly any forward-looking statements after the filing of this Annual Report on Form 10-K, whether as a result of new information, future events, changes in assumptions or otherwise.

### RISK FACTORS

An investment in our common stock is speculative in nature and involves a high degree of risk. No investment in our common stock should be made by any person who is not in a position to lose the entire amount of such investment.

In addition to being subject to the risks described elsewhere in this Form 10-K, including those risks described below under "Liquidity and Capital Resources," an investment in our common stock is subject to the following risks and uncertainties:

IF WE DO NOT DEVELOP AND INTRODUCE NEW PRODUCTS IN A TIMELY MANNER, WE MAY NOT BE ABLE TO MEET THE NEEDS OF OUR CUSTOMERS AND OUR NET SALES MAY DECLINE.

Our success depends upon our ability to develop and introduce new sensor products, sensor-based consumer products and product line extensions. If we are unable to develop or acquire new products in a timely manner, our net sales will suffer. The development of new products involves highly complex processes, and at times we have experienced delays in the introduction of new products. Since many of our sensor products are designed for specific applications, we must frequently develop new products jointly with our customers. We are dependent on the ability of our customers to successfully develop, manufacture and market products that include our sensors. Successful product development and introduction of new products depends on a number of factors, including the following:

- accurate product specification;
- timely completion of design;
- achievement of manufacturing yields;
- timely, quality and cost-effective production; and
- effective marketing.



RAPID GROWTH IN THE SENSOR DIVISION BRINGS RISKS AND CHALLENGES ASSOCIATED WITH GROWTH.

The rapid growth of the Sensor Division through a combination of organic and acquisitive means creates a unique set of challenges which include:

- managing inventory from acquired companies as well as inventory required for new programs;
- prioritizing the right engineering programs so new opportunities are harvested without losing business in smaller, more stable lines of business;
- managing a growing end user business alongside a robust and larger OEM business;
- building infrastructure and the management team to support growth of the business in new geographies, especially Europe;
- maintaining a pipeline of increasingly larger opportunities to achieve comparable year over year growth rates;
- maintaining a rapidly changing balance sheet to optimize debt to equity and working capital ratios.

WE HAVE SUBSTANTIAL NET SALES AND OPERATIONS OUTSIDE OF THE UNITED STATES, INCLUDING SIGNIFICANT OPERATIONS IN CHINA AND EUROPE THAT EXPOSE US TO INTERNATIONAL RISKS.

Our international sales accounted for approximately 51.4% of our net sales in the fiscal year ended March 31, 2005 and 31.3 % of our net sales in the fiscal year ended March 31, 2004. At March 31, 2005, our foreign subsidiaries' total assets aggregated \$53,265, of which, \$15,395 was in Hong Kong, \$7,149 was in China and \$30,721 was in Europe. We are subject to the risks of foreign currency transaction and translation losses, which might result from fluctuations in the values of the Hong Kong dollar and Chinese renminbi. At March 31, 2005, we had net assets of \$9,503 subject to possible fluctuations in the value of the Hong Kong dollar, net assets of \$10,455 subject to fluctuations in the value of the Chinese renminbi and net assets of \$49 subject to fluctuations in the Euro. Our foreign subsidiaries' operations reflect intercompany transfers of costs and expenses, including interest on intercompany trade receivables, at amounts established by us.

We manufacture or source nearly all of our sensor-based consumer products and the majority of our sensor products in China. Our China subsidiary is subject to certain government regulations, including currency exchange controls, which limit the subsidiary's ability to pay cash dividends or lend funds to us. The inability to operate in China or the imposition of significant restrictions, taxes, or tariffs on our operations in China would impair our ability to manufacture products in a cost-effective manner and could reduce our profitability significantly.

Risks specific to our international operations include:

- political conflict and instability in the relationships among Hong Kong, Taiwan, China, the United States and in our target international markets;
- political instability and economic turbulence in Asian markets;
- changes in United States and foreign regulatory requirements resulting in burdensome controls, tariffs and import and export restrictions;

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- difficulties in staffing and managing international operations;
- changes in foreign currency exchange rates, which could make our products more expensive as stated in local currency, as compared to competitive products priced in the local currency;
- enforceability of contracts and other rights or collectability of accounts receivable in foreign countries due to distance and different legal systems;

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- delays or cancellation of production and delivery of our products due to the logistics of international shipping, which could damage our relationships with our customers;
- a recurrence of the outbreak of SARS and the associated risks to our operations in China and Hong Kong; and
- tax policy change in China, which could affect the profitability of our operations in China. On January 1, 2004, China adopted a new Value Added Tax (VAT) export refund rate, dropped from 17% to 13%, with the intention of reducing their trade surplus and increasing pressure on local currency.

COMPETITION IN THE MARKETS WE SERVE IS INTENSE AND COULD REDUCE OUR NET SALES AND HARM OUR BUSINESS.

Highly fragmented markets and high levels of competition characterize our Sensor business. Despite recent consolidations, including the acquisition of several smaller competitors of ours by larger competitors like General Electric, Honeywell, and Danaher Corporation, the sensor industry remains highly fragmented. The Consumer Products business is also highly competitive and is becoming more competitive as a result of the emergence of new scale manufacturers and enhanced product lines from existing competitors. We cannot assure that our original equipment manufacturer customers, who are also competitors, will not develop their own production capability or locate alternative sources of supply, and discontinue purchasing products from us. In addition, the barriers to entry are being reduced in the scale industry due to the emergence of low cost, commercially available electronics and load cells. Some of our competitors and potential competitors may have a number of significant advantages over us, including:

- greater financial, technical, marketing, and manufacturing resources;
- preferred vendor status with our existing and potential customer base;
- more extensive distribution channels and a broader geographic scope;
- larger customer bases; and
- a faster response time to new or emerging technologies and changes in customer requirements.

A SUBSTANTIAL PORTION OF OUR NET SALES IS GENERATED BY A SMALL NUMBER OF LARGE CUSTOMERS. IF ANY OF THESE CUSTOMERS REDUCE OR POSTPONE ORDERS, OUR NET SALES AND EARNINGS WILL SUFFER.

Historically, a relatively small number of customers have accounted for a significant portion of our net sales. For the fiscal year ended March 31, 2005, the five largest customers of our Consumer Products business represented approximately 55% of net sales for that business. Because we have no long-term volume purchase commitments from any of our significant customers, we cannot be

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certain that our current order volume can be sustained or increased. The loss of or decrease in orders from any major customer could significantly reduce our net sales and profitability.

OUR TRANSFER PRICING PROCEDURES MAY BE CHALLENGED, WHICH MAY SUBJECT US TO HIGHER TAXES AND ADVERSELY AFFECT OUR EARNINGS.

Transfer pricing refers to the prices that one member of a group of related companies charges to another member of the group for goods, services, or the use of intellectual property. If two or more affiliated companies are located in different countries, the laws or regulations of each country generally will require that transfer prices be the same as those charged by unrelated companies dealing with each other at arm's length. If one or more of the countries in which our affiliated companies are located believes that transfer prices were manipulated by our affiliate companies in a way that distorts the true taxable income of the companies, the laws of countries where our affiliated companies are located could require us to redetermine transfer prices and thereby reallocate the income of our affiliate companies in order to reflect these transfer prices. Any reallocation of income from one of our companies in a lower tax jurisdiction to an affiliated company in a higher tax jurisdiction would result in a higher overall tax liability to us.

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Moreover, if the country from which the income is being reallocated does not agree to the reallocation, the same income could be subject to taxation by both countries.

We have adopted transfer-pricing procedures with our subsidiaries to regulate intercompany transfers. Our procedures call for the transfer of goods, services, or intellectual property from one company to a related company at prices that we believe are arm's length. We have established these procedures due to the fact that some of our assets, such as intellectual property developed in the United States, are transferred among our affiliated companies. If the United States Internal Revenue Service or the taxing authorities of any other jurisdiction were to successfully require changes to our transfer pricing practices, we could become subject to higher taxes and our earnings would be adversely affected. Any determination of income reallocation or modification of transfer pricing laws can result in an income tax assessment of the portion of income deemed to be derived from the United States or other taxing jurisdiction.

PRESSURE BY OUR CUSTOMERS TO REDUCE PRICES AND TO AGREE TO LONG-TERM SUPPLY ARRANGEMENTS MAY CAUSE OUR NET SALES OR PROFIT MARGINS TO DECLINE.

Our customers are under pressure to reduce prices of their products. Therefore, we expect to experience pressure from our customers to reduce the prices of our products. Our customers frequently negotiate supply arrangements with us well in advance of delivery dates, thereby requiring us to commit to price reductions before we can determine if we can achieve the assumed cost reductions. We believe that we must reduce our manufacturing costs and obtain larger orders to offset declining average sales prices. If we are unable to offset declining average sales prices, our gross profit margins will decline.

AS PART OF OUR BUSINESS STRATEGY, WE HAVE ENTERED INTO AND MAY ENTER INTO OR SEEK TO ENTER INTO BUSINESS COMBINATIONS AND ACQUISITIONS THAT MAY BE DIFFICULT AND COSTLY TO INTEGRATE, DISRUPT OUR BUSINESS, DILUTE STOCKHOLDER VALUE OR DIVERT MANAGEMENT'S ATTENTION.

We made several acquisitions during fiscal year 2005. As a part of our business strategy, we may enter into additional business combinations and acquisitions. Acquisitions are typically accompanied by a number of risks, including the

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difficulty of integrating the operations and personnel of the acquired companies, the potential disruption of our ongoing business and distraction of management, expenses related to the acquisition and potential unknown liabilities associated with acquired businesses. If we are not successful in completing acquisitions that we may pursue in the future, we may be required to reevaluate our growth strategy, and we may incur substantial expenses and devote significant management time and resources in seeking to complete proposed acquisitions that will not generate benefits for us.

In addition, with future acquisitions, we could use substantial portions of our available cash as all or a portion of the purchase price. We could also issue additional securities as consideration for these acquisitions, which could cause significant stockholder dilution. Our prior acquisitions and any future acquisitions may not ultimately help us achieve our strategic goals and may pose other risks to us.

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As a result of our previous acquisitions, we have added several different decentralized operating and accounting systems, resulting in a complex reporting environment. We expect that we will need to continue to modify our accounting policies, internal controls, procedures and compliance programs to provide consistency across all our operations, in order to increase efficiency and operating effectiveness and improve corporate visibility into our decentralized operations.

### ITEM 2. PROPERTIES

As of March 31, 2005, we leased all but one of our properties under operating leases as follows:

| LOCATION            | PRIMARY USE  | BUSINESS | SQ. FT. | LEASE EXPIRATION |
|---------------------|--|----------|---------|------------------|
| Fairfield, NJ USA*  | Light manufacturing, research and development, sales and marketing                             | Sensor   | 20,853  | Oct-05           |
| Wayne, PA USA       | Research and development, Sales and marketing  | Sensor   | 2,900   | Dec-06           |
| San Jose, CA USA    | Manufacturing, research and development, sales and marketing                                   | Sensor   | 4,700   | Aug-05           |
| Aliso Viejo, CA USA | Research and development, and Product Support  | Sensor   | 2,283   | Dec-07           |
| Shenzhen, China     | Sensors principal Asian Manufacturing facility   | Sensor   | 125,860 | Sep-07           |
| Shenzhen, China     | Research and development product support facility  | Consumer | 12,214  | Feb-07           |
| Hampton, VA USA     | Sensors principal domestic manufacturing and distribution facility, and Corporate headquarters | Sensor   | 80,725  | Jul-11           |

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|                              |  |          |        |                |
|------------------------------|--|----------|--------|----------------|
| Hampton, VA USA**            | Distribution and warehouse   | Consumer | 39,275 | Jul-11         |
| Torrance, CA                 | Manufacturing, research and development, sales and marketing       | Sensor   | 7,100  | May-06         |
| Plainfield, IL ***           | Light Manufacturing, Research and development, Sales and marketing | Sensor   | 3,000  | May-06         |
| Pfaffenhofen, Germany        | Sales and Marketing  | Sensor   | 1,300  | Dec-05         |
| 16                           |  |          |        |                |
| Toulouse, France             | Manufacturing, research and development, sales and marketing       | Sensor   | 20,000 | July-07        |
| Hong Kong, China             | Trading office   | Consumer | 2,000  | Mar-06         |
| Kings Langley, England****   | Sales and marketing  | Consumer | 1,070  | Month to Month |
| Owned Property:              |  |          |        |                |
| -----                        |  |          |        |                |
| Les Clayes-sous-Bois, France | Manufacturing, sales and marketing                                 | Sensor   | 12,378 |                |

\*The company acquired the lease of the Fairfield, NJ facility as part of the Entran acquisition. There will be no activity at this facility after June, 2005. The company is in discussions with the facility landlord to exit the lease prior to the October, 2005 lease termination date.

\*\*Our Consumer distribution and warehouse space in Hampton, Virginia is presently vacant due to the Conair transaction, as we no longer sell the Thinner brand of bath and kitchen scales to retailers. We are presently attempting to sublease the unused space. Our accounting for the Hampton lease is in accordance with the requirements for FASB 146, "Accounting for Costs Associated with Exit or Disposal Activities" whereby we did not record a liability for the lease as part of the consummation of the transaction with Conair because the Company still derives economic benefit from the lease.

\*\*\*The Company elected to exit the lease in Plainfield, IL effective May 31, 2005.

\*\*\*\*The Company elected to exit the lease in Kings Langley, England effective May 31, 2005.

Our sensor manufacturing facilities located in China and Virginia are ISO 9001 certified. We believe that these premises are suitable and adequate for our present operations.

### ITEM 3. LEGAL PROCEEDINGS

#### PENDING MATTERS

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Robert L. DeWelt v. Measurement Specialties, Inc. et al., Civil Action No. 02-CV-3431. On July 17, 2002, Robert DeWelt, the former acting Chief Financial Officer and former acting general manager of our Schaevitz Division, filed a lawsuit against us and certain of our officers and directors in the United States District Court of the District of New Jersey. Mr. DeWelt resigned on March 26, 2002 in disagreement with management's decision not to restate certain of our financial statements. The lawsuit alleges a claim for constructive wrongful discharge and violations of the New Jersey Conscientious Employee Protection Act. Mr. DeWelt seeks an unspecified amount of compensatory and punitive damages. We filed a Motion to Dismiss this case, which was denied on June 30, 2003. We have answered the complaint and are engaged in the discovery process. This litigation is ongoing and we cannot predict its outcome at this time.

In re Service Merchandise Company, Inc. (Service Merchandise Company, Inc. v. Measurement Specialties, Inc.), United States Bankruptcy Court for the Middle District of Tennessee, Nashville Division, Case No. 399-02649, Adv. Pro. No. 301-0462A. We are currently the defendant in a lawsuit filed in March 2001 by Service Merchandise Company, Inc. ("SMC") and its related debtors (collectively, the "Debtors") in the United States District Court for the Middle District of Tennessee in the context of the Debtors' Chapter 11 bankruptcy proceedings. The Bankruptcy Court entered a stay of the action in May 2001, which was lifted in February 2002. On March 30, 2004, the court entered an order allowing written discovery in the form of interrogatories and requests for production of documents to begin. All other discovery remains stayed. The action alleges that we received approximately \$645 from one or more of the Debtors during the ninety

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(90) day period before the Debtors filed their bankruptcy petitions, that the transfers were to our benefit, were for or on account of an antecedent debt owed by one or more of the Debtors, made when one or more of the Debtors were insolvent, and that the transfers allowed us to receive more than we would have received if the cases were cases under Chapter 7 of the United States Bankruptcy Code. The action seeks to disgorge the sum of approximately \$645 from us. It is not possible at this time to predict the outcome of the litigation or estimate the extent of any damages that could be awarded in the event that we are found liable to the estates of SMC or the other Debtors.

SEB Patent Issue. On December 12, 2003, Babylliss, SA, a wholly owned subsidiary of Conair Corporation, received notice from the SEB Group ("SEB") alleging that certain bathroom scales manufactured by us and sold by Babylliss in France violated certain patents owned by SEB. On May 19, 2004, SEB issued a Writ of Summons to Babylliss and us, alleging patent infringement and requesting the Tribunal de Grande Instance de Paris to grant them unspecified monetary damages and injunctive relief. Pursuant to the indemnification provisions of the Conair transaction, we have assumed defense of this matter. After thorough review, we believe SEB's allegations of patent infringement are without merit and we intend to defend our position vigorously. On November 9, 2004, we requested of the Tribunal de Grande Instance de Paris a declaration of non-infringement of the SEB patent with regard to certain weighing sensor design known as an "M" design included in certain of our bathroom scales other than those to which SEB has alleged infringement. On March 14, 2005, we filed pleadings with the Tribunal seeking nullity of the SEB patent and a ruling of non-infringement of the SEB patent with respect to the "M" design. At this time, we cannot predict the outcome of this matter.

From time to time, we are subject to other legal proceedings and claims in the ordinary course of business. We currently are not aware of any such legal proceedings or claims that we believe will have, individually or in the

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aggregate, a material adverse effect on our business, financial condition, or operating results.

### Settled Litigation

Exeter Technologies, Inc. and Michael Yaron v. Measurement Specialties, Inc. (Arbitration). Exeter Technologies, Inc. ("Exeter") and Michael Yaron alleged underpayments of approximately \$322 relating to a January 5, 2000 Product Line Acquisition Agreement. We maintained the claim failed to recognize our rights to certain contractual allowances and offsets. In March 2004, the parties settled this matter for a \$300 payment by the company.

Measurement Specialties, Inc. Securities Litigation. On March 20, 2002, a class action lawsuit was filed on behalf of purchasers of our common stock in the United States District Court for the District of New Jersey against the company and certain of our present and former officers and directors. The complaint was subsequently amended to include the underwriters of our August 2001 public offering as well as our former auditors. The lawsuit alleged violations of the federal securities laws. The lawsuit sought an unspecified award of money damages. After March 20, 2002, nine additional similar class actions were filed in the same court. The ten lawsuits were consolidated into one case under caption In re: Measurement Specialties, Inc. Securities Litigation, 02 Civ. No. 1071 (D.N.J.). Plaintiffs filed a Consolidated Amended Complaint on September 12, 2002. The underwriters made a claim for indemnification under the underwriting agreement.

On April 1, 2004, we reached an agreement in principle to settle this class action lawsuit. On July 20, 2004, the court approved the settlement agreement.

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Pursuant to the agreement, the case has been settled as to all defendants in exchange for payments of \$7,500 from the company and \$590 from Arthur Anderson, our former auditors. Both our primary and excess D&O insurance carriers initially denied coverage for this matter. After discussion, our primary D&O insurance carrier agreed to contribute \$5,000 and our excess insurance carrier agreed to contribute \$1,400 to the settlement of this case. As part of the arrangement with our primary carrier, we agreed to renew our D&O coverage for the period from April 7, 2003 through April 7, 2004. The \$3,200 renewal premium represented a combination of the market premium for an aggregate of \$6,000 in coverage for this period plus a portion of our contribution toward the settlement.

SEC Investigation. In February 2002, we contacted the staff of the SEC after discovering that our former chief financial officer had made the misrepresentation to senior management, our board of directors and our auditors that a waiver of a covenant default under our credit agreement had been obtained when, in fact, our lenders had refused to grant such a waiver. Since February 2002, the company and a special committee formed by our board of directors have been cooperating with the staff of the SEC. In June, 2002, the staff of the Division of Enforcement of the SEC informed the company that it was conducting a formal investigation relating to matters reported in our Quarterly Report on Form 10-Q for the quarter ended December 31, 2001.

On June 28, 2004, the Company reached a definitive settlement agreement with the SEC which resolved the SEC's investigation of the Company. On June 30, 2004, the court approved the settlement agreement. Pursuant to the definitive settlement agreement, the Company paid one dollar in disgorgement and \$1,000 in civil penalties.

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### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders during the fourth quarter of fiscal year 2005.

### PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### (A) Market Price

Our common stock, no par value, is traded on the American Stock Exchange (AMEX) under the symbol MSS. The following table presents high and low sales prices of our common stock as reported on the AMEX for the periods indicated:

|                                  | HIGH    | LOW     |
|----------------------------------|---------|---------|
|                                  | -----   | -----   |
| YEAR ENDING MARCH 31, 2005       |         |         |
| Quarter ended June 30, 2004      | \$22.82 | \$18.65 |
| Quarter ended September 30, 2004 | 25.85   | 19.74   |
| Quarter ended December 31, 2004  | 26.98   | 23.75   |
| Quarter ended March 31, 2005     | 28.06   | 23.00   |
| YEAR ENDING MARCH 31, 2004       |         |         |
| Quarter ended June 30, 2003      | \$ 5.65 | \$ 2.96 |
| Quarter ended September 30, 2003 | 13.50   | 5.15    |
| Quarter ended December 31, 2003  | 22.10   | 11.85   |
| Quarter ended March 31, 2004     | 23.55   | 18.36   |

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#### (B) Approximate Number of Holders of Common Stock

At May 27, 2005, there were approximately 112 shareholders of record of our common stock.

#### (C) Dividends

We have not declared cash dividends on our common equity. Additionally, the payment of dividends is prohibited under our credit agreement. We intend to retain earnings to support our growth strategy and we do not anticipate paying cash dividends in the foreseeable future.

At present, there are no material restrictions on the ability of our Hong Kong subsidiary to transfer funds to us in the form of cash dividends, loans, advances, or purchases of materials, products or services. Chinese laws and regulations, including currency exchange controls, restrict distribution and repatriation of dividends by our China subsidiary.

#### (D) Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12 for information about our equity compensation plans.

### ITEM 6. SELECTED FINANCIAL DATA



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The following selected financial data should be read in conjunction with our Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

(AMOUNTS IN THOUSANDS OF US DOLLARS, EXCEPT PER SHARE AMOUNTS)

|  | YEARS ENDED MARCH 31, |            |             |             |
|--|-----------------------|------------|-------------|-------------|
|  | 2005                  | 2004       | 2003        | 2002        |
| Results of operations:                                     |                       |            |             |             |
| Net sales  | \$140,941             | \$112,813  | \$107,676   | \$ 97,273   |
| Income (loss) from continuing operations                   | \$ 14,826             | \$ 21,374  | \$ (6,323)  | \$ (24,234) |
| Net income (loss)  | \$ 14,826             | \$ 21,586  | \$ (9,097)  | \$ (29,047) |
| Net cash provided by (used in):                            |                       |            |             |             |
| Operating activities                                       | \$ 11,377             | \$ 10,405  | \$ 3,047    | \$ (6,077)  |
| Investing activities                                       | \$ (48,322)           | \$ 9,687   | \$ 21,113   | \$ (12,070) |
| Financing activities                                       | \$ 22,100             | \$ (3,508) | \$ (24,178) | \$ 27,344   |
| Income (loss) from continuing operations per common share: |                       |            |             |             |
| Basic  | \$ 1.11               | \$ 1.73    | \$ (0.53)   | \$ (2.30)   |
| Diluted  | \$ 1.05               | \$ 1.53    | \$ (0.53)   | \$ (2.30)   |
| Loss per common share from discontinued operations         |                       |            |             |             |
| Basic  | \$ -                  | \$ 0.02    | \$ (0.23)   | \$ (0.43)   |
| Diluted  | \$ -                  | \$ 0.01    | \$ (0.23)   | \$ (0.43)   |
| Net Income (loss) per common share:                        |                       |            |             |             |
| Basic  | \$ 1.11               | \$ 1.75    | \$ (0.76)   | \$ (2.76)   |
| Diluted  | \$ 1.05               | \$ 1.54    | \$ (0.76)   | \$ (2.76)   |
| Cash dividends declared per common share                   | None                  | None       | None        | None        |
| As of March 31,  |                       |            |             |             |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Total assets                              | \$126,004 | \$ 77,000 | \$ 46,168 | \$ 89,612 |
| Long-term debt, net of current maturities | \$ 20,028 | \$ -      | \$ 2,000  | \$ -      |

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our results of operations and financial condition should be read together with the other financial information and Consolidated Financial Statements and related Notes included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a variety of factors.

Our fiscal year begins on April 1 and ends on March 31. References in this report to the year 2004 or fiscal 2004 refer to the 12-month period from April 1, 2003 through March 31, 2004 and references in this report to the year 2005 or fiscal 2005 refer to the 12-month period from April 1, 2004 through March 31, 2005.

#### OVERVIEW

We are a designer and manufacturer of sensors and sensor-based consumer products. We produce a wide variety of sensors that use advanced technologies to

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measure precise ranges of physical characteristics including pressure, position, force, vibration, humidity and photo optics. We have two segments, the Sensor and Consumer Products.

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

Our Consumer Products segment designs and manufactures sensor-based consumer products that we sell to original equipment manufacturers, retailers and distributors in both the United States and Europe. Consumer products include bathroom and kitchen scales, tire pressure gauges and distance estimators.

The following table sets forth, for the periods indicated, certain items in our consolidated statements of income as a percentage of net sales:

|  | FISCAL YEAR ENDED MARCH 31, |        |         |
|--|-----------------------------|--------|---------|
|  | 2005                        | 2004   | 2003    |
| Net Sales  |                             |        |         |
| Sensors  | 65.5%                       | 53.4%  | 48.6%   |
| Consumer products  | 34.5                        | 46.6   | 51.4    |
|  |                             |        |         |
| Total net sales  | 100.0                       | 100.0  | 100.0   |
| Cost of Sales  | 57.9                        | 55.4   | 64.7    |
|  |                             |        |         |
| Gross profit   | 42.1                        | 44.6   | 35.3    |
| Operating expenses (income)                                  |                             |        |         |
| Selling, general, and administrative                         | 25.4                        | 27.0   | 31.8    |
| Non-cash compensation  | -                           | 5.7    | -       |
| Litigation expense   | -                           | 1.3    | 3.3     |
| Research and development                                     | 2.5                         | 3.1    | 3.3     |
| Customer funded development                                  | (0.2)                       | -      | (0.3)   |
|  |                             |        |         |
| Amortization of acquired intangibles                         | 0.5                         | -      | -       |
| Restructuring costs  | -                           | 0.4    | 1.1     |
| Interest expense, net  | 0.5                         | 0.3    | 1.9     |
| Other expenses (income)                                      | (0.1)                       | (1.3)  | (0.4)   |
|  |                             |        |         |
| Income/(loss) from continuing operations before income taxes | 28.6                        | 36.5   | 40.7    |
| Income tax benefit (expense)                                 | 13.5                        | 8.1    | (5.4)   |
| Loss from operations of discontinued units                   | (3.0)                       | 10.8   | (0.4)   |
| Gain on disposition of discontinued units                    | -                           | 0.2    | (3.6)   |
|  |                             |        |         |
| NET INCOME (LOSS)  | 10.5 %                      | 19.1 % | (8.4) % |
|  |                             |        |         |

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### EXECUTIVE SUMMARY

Measurement Specialties has seen a significant amount of change over the last several years. In May 2002, we embarked upon an aggressive restructuring effort to improve the operating performance of the Company. A key component of this restructuring was the elimination of underutilized facilities to consolidate our operations in Shenzhen, China and Hampton, Virginia. Having completed this restructuring, Measurement Specialties is now a global sensor solutions company with a broad range of technologies and capabilities. In fiscal year 2005, the Company embarked on an ambitious growth strategy for the sensor division, to be achieved through acquisition and organic growth. The result was six acquisitions during FY 05: Elekon Industries, Inc., Entran Devices, Inc. and Entran SA, Encoder Devices, LLC, Humirel SA, MWS Sensorik GMBH, and Polaron Components Ltd. (the "Acquisitions") (See Notes 2 and 5 to the Consolidated Financial Statements included in this Annual Report on Form 10-K). Our focus remains engineered solutions where we can use our engineering and manufacturing talent and depth of knowledge and experience in sensors to provide a complete solution to our customers. We also have a substantial end user business for high quality "off the shelf" sensors and transducers used for test, instrumentation and process control. A key to our manufacturing strategy is leveraging the significant infrastructure we now have in Shenzhen, China. This infrastructure has enabled us to reduce costs and improve financial performance while continuing to provide our customers with low cost, highly reliable products.

### OUR STRATEGY

**DEVELOPMENT STRATEGY.** We focus our development efforts in both our Sensor business and Consumer Products business on the original equipment manufacturers (OEM) market. In the Consumer Products business, having both a branded and OEM consumer scale business created some channel conflicts historically. As part of this focus, we sold certain assets associated with our Thinner(R) branded bathroom and kitchen scale business to Conair Corporation on January 30, 2004. We previously sold our Thinner(R) branded scales directly to retailers, predominantly in the U.S. and Canada. On a going-forward basis, we expect to supply these scales directly to Conair and intend to continue our efforts in the design, development and manufacture of innovative scale products for sale to our worldwide base of OEM customers. Although our development focus is on the OEM market, we intend to continue to develop and manufacture our tire pressure gauges, which are sold directly to retail customers under the Accutire(R) brand. As OEM margins have historically been lower than margins on sales to retail customers, we expect our Consumer Products segment margins will decline as a result of this transaction.

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**GROWTH STRATEGY.** We are focused on aggressively growing our Sensor segment. We expect that this growth will come through a combination of organic growth and the acquisition of sensor businesses. To that end, since March 31, 2004, the Company has made six Acquisitions referenced above. To finance the Acquisitions, we entered into an expanded \$35 million credit facility (See Note 7 to the Consolidated Financial Statements included in this Annual Report on Form 10-K). To finance additional acquisitions, we would consider additional borrowings, the sale of equity securities, or the sale of existing Company assets, including assets in our Consumer Products segment. The results of operations of these acquisitions are included in our consolidated statement of operations as of and since their respective dates of purchase.

**ESTABLISHMENT OF OFFSHORE HOLDING COMPANIES.** In the quarter ended June 30,

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2004, the Company reorganized its Asian operations under an offshore holding company, Kenabell Holding Limited, a British Virgin Island Company ("Kenabell Holding BVI"). As part of the reorganization, a new entity was formed under Kenabell Holding BVI in the Cayman Islands, Measurement Limited ("ML Cayman"). A significant portion of the Consumer business in Asia was transferred into ML Cayman during the quarter ended June 30, 2004. These holding companies were formed as part of a foreign tax planning restructuring, and to facilitate any potential future sale of assets of our Consumer Products business.

MSI Sensors (Asia) Limited (formerly named Measurement Limited, organized in Hong Kong) owns all of the shares of MSI Sensors (China) Ltd. (formerly named Jingliang Electronics (Shenzhen) Co. Ltd, organized in the Peoples Republic of China). Kenabell Holding BVI owns all of the shares of MSI Sensors (Asia) Limited and ML Cayman. All the companies are included in the consolidated financial statements of the group.

In the quarter ended March 31, 2005, as part of a foreign tax planning restructuring, the Company completed the reorganization of its European subsidiaries, which includes Entran SA and Humirel SA. This reorganization involved transferring ownership of these subsidiaries to a Cyprus holding company under Kenabell Holding BVI, named Acalon Holding Limited. In conjunction with this reorganization, the ownership of Kenabell Holding BVI was also transferred to Measurement Specialties Foreign Holdings Corporation, a Delaware corporation.

### TRENDS.

**Sensor Business:** The sensors market is highly fragmented with hundreds of niche players. While the worldwide sensors market that we serve is expected to have a 5% Compound Annual Growth Rate (CAGR), we expect to gain share and grow our Sensor business in excess of the market. As a result of this growth strategy, we anticipate pursuing high volume sensor business that will carry lower gross margins than our traditional averages, which may influence our overall sensor gross margins. Accordingly, we anticipate average gross margins in the sensor division to decline to 47% from 50% for the fiscal year ending March 31, 2006.

**Consumer Products Business:** As a result of the Conair transaction, we now supply bath and kitchen scales solely to OEM manufacturers for sale under their labels. As OEM margins historically have been lower than retail margins, including the effect of the amortized gain related to the Conair transaction (See Note 6 to the Consolidated Financial Statements included in this Annual Report on Form 10-K), we anticipate gross margins in the Consumer Products business to be in the 22% - 24% range for the fiscal year ending March 31, 2006.

Please refer to Item 1 Business in this report for additional details regarding the basis of the trends described above.

### CHANGES IN OUR BUSINESS

### DISCONTINUED OPERATIONS:

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In September 2002, we sold all of the outstanding stock of Terrailon Holdings Limited (referred to herein as "Terrailon"), a European manufacturer of branded consumer bathroom and kitchen scales, to Fukuda (Luxembourg) S.a.r.l., an investment holding company incorporated in Luxembourg.

We placed our United Kingdom subsidiary, Measurement Specialties UK Limited (referred to herein as "Schaevitz(R) UK"), into receivership on June 5, 2002

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pursuant to the terms of a Mortgage Debenture dated February 28, 2001. Certain assets of Schaevitz(R) UK related to the foil strain gauge sensor business were reacquired during FY05 in the acquisition of Polaron Components, LTD.

Our consolidated financial statements for the fiscal years ended March 31, 2005, 2004, and 2003 include the results of our ongoing operations. As a result of placing Schaevitz UK into receivership and selling Terraillon, these entities have been classified as discontinued operations in the consolidated financial results for all periods presented. Accordingly, all comparisons in Management's Discussion and Analysis for each of the fiscal years ended March 31, 2005, 2004 and 2003 exclude the results of these discontinued operations except for "Loss from discontinued units", "Cumulative effect of accounting change, net of tax", and "Net income (loss)."

### SALE OF ASSETS:

On January 30, 2004, Conair Corporation purchased certain assets of our Thinner(R) branded bathroom and kitchen scale business, and now owns worldwide rights to the Thinner(R) brand name and exclusive rights to the Thinner(R) designs in North America. Assets sold to Conair included, among other things, all inventories of finished scales, open customer purchase orders, and patents. We previously sold our Thinner(R) branded scales directly to retailers, predominately in the U.S. and Canada. On a going-forward basis, we expect to supply these scales directly to Conair and intend to continue our efforts in the design, development and manufacture of innovative scale products for sale to our worldwide base of OEM customers.

In July 2002, we sold the assets, principally property and equipment, related to our silicon wafer fab manufacturing operation in Milpitas, CA to Silicon Microstructures, Inc. ("SMI"), a wholly-owned subsidiary of Elmos Semiconductor AG. The wafer fab operation was formerly part of our IC Sensors division.

Our San Jose research and design center (the former IC Sensors division) continues to design and sell all, and manufacture most, of the product lines it produced prior to the sale, including custom wafers and die, pressure sensors, accelerometers and custom MEMS components, and continues to outsource to SMI the manufacturing of silicon chips used in these products. This sale is reflected in the results of operations of the Sensors segment.

### RECENT ACQUISITIONS:

As a result of the recent acquisition discussed in Part I, Item I, "Recent Acquisitions" of this Annual Report on Form 10-K, the financial statements are not comparable.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123R (Revised 2004), Share-Based Payment. The new FASB rule 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 Statement 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. Statement 123R replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. FASB Statement 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 Opinion 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 Statement 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 after December 15, 2005 for small business issuers. The new rule allows registrants to implement Statement 123R at the beginning of their next fiscal year, instead of the next interim period, that begins after June 15, 2005, or December 15, 2005 for small business issuers. The Company will be required to apply FASB 123R beginning with the quarter ending June 30, 2006. The Company is currently quantifying the impact of FASB 123R, however, the Company does believe the adoption of FASB Statement 123R will have a material effect on its financial position and results of operations consistent with the pro-forma disclosures.

On November 24, 2004, the FASB issued FASB Statement No. 151, Inventory Costs - 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. Statement 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, Statement 151 requires that allocation of fixed production overheads to conversion costs should be based on normal capacity of the production facilities. The provisions in Statement 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Companies must apply the standard prospectively. The Company does not believe the adoption of FASB Statement 151 will have a material effect on its financial position or results of operations.

On December 17, 2004, the FASB issued FASB Statement No. 153, Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29. 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. Statement 153 amends APB Opinion No. 29, Accounting for Nonmonetary Transactions, that was issued in 1973. The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have "commercial substance." Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The provisions in Statement 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted and companies must apply the standard prospectively. The Company does not believe the adoption of FASB Statement 153 will have a material effect on its financial position or results of operations.

In May 2005, the FASB issued FASB Statement No. 154, Accounting Changes and Error Corrections. This new standard replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim

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Financial Statements, and represents another step in the FASB's goal to converge its standards with those issued by the IASB. Among other changes, Statement 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. Statement 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial 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 Company does not believe the adoption of FASB Statement 151 will have a material effect on its financial position or results of operations.

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In December 2004, the FASB issued FASB Staff Position No. 109-1 ("FSP 109-1"), "Application of SFAS No. 109, "Accounting for Income Taxes", to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." FSP 109-1, which is effective immediately, states that the tax deduction of qualified domestic production activities, which is provided by the American Jobs Creation Act of 2004 (the "Jobs Act"), will be treated as a special deduction as described in SFAS No. 109. Consequently, the impact of the deduction, which is effective January 1, 2005, will be reported in the period in which the deduction is claimed on the Company's income tax returns. The Company does not expect FSP 109-1 to have a material effect on its financial statements.

In December 2004, the FASB issued FASB Staff Position No. 109-2 ("FSP 109-2"), "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004". FSP 109-2 provides accounting and disclosure guidance related to the Jobs Act provision, which addresses the limited time 85% dividends received deduction on the repatriation of certain foreign earnings. Although adoption is effective immediately, FSP 109-2 states that a company is allowed time beyond the financial reporting period to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings. The Company is evaluating the impact of the repatriation provisions of the Jobs Act and will complete its review by December 31, 2005. However, it is not expected that these provisions will have a material impact on the Company's financial statements. Accordingly, as provided for in FSP 109-2, the Company has not adjusted its tax expense or net deferred tax assets to reflect the repatriation provisions of the Jobs Act.

### APPLICATION OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the periods reported. The following accounting policies involve "critical accounting estimates" because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. In addition, while we have used our best estimates based on facts and circumstances available to us at the time, different estimates reasonably could have been used in the current period, or

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changes in the accounting estimates we used are reasonably likely to occur from period to period which may have a material impact on the presentation of our financial condition and results of operations. We review these estimates and assumptions periodically and reflect the effects of revisions in the period that they are determined to be necessary.

### REVENUE RECOGNITION:

Revenue is recognized when earned, which occurs when the following four conditions are met: 1. persuasive evidence of an arrangement exists; 2. delivery has occurred or services have been rendered; 3. the price to the buyer is fixed or determinable; and 4. collectability is reasonably assured. Certain consumer products may be sold with a provision allowing the customer to return a portion of products. We provide for allowances for returns based upon historical and estimated return rates. The amount of actual returns could differ from our estimate. Changes in estimated returns would be accounted for in the period of change.

We utilize manufacturing representatives as sales agents for certain of our products. Such representatives do not receive orders directly from customers, take title to or physical possession of products, or invoice customers. Accordingly, revenue is recognized upon shipment to the customer.

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Certain consumer products are sold under "private label" arrangements with various distributors. Such products are manufactured to the distributor's specifications. We are not responsible for the ultimate sale to third party customers and therefore record revenue upon shipment to the distributor.

On January 30, 2004, Conair Corporation purchased certain assets of our Thinner(R) branded bathroom and kitchen scale business, and now owns worldwide rights to the Thinner(R) brand name and exclusive rights to the Thinner(R) designs in North America. We have accounted for the sale of this business under the guidance of EITF 00-21. As a significant portion of the proceeds from the sale was in fact an up-front payment for future lost margins, the majority of the gain on sale has been deferred and will be amortized into revenues in future periods over the estimated remaining lives for those products sold to Conair. (See Note 6 to our Consolidated Financial Statements included in this Annual Report on Form 10-K for a discussion of the sale of the business to Conair).

### ACCOUNTS RECEIVABLE:

The majority of our accounts receivable are due from manufacturers of electronic, automotive, military, and industrial products and retailers. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are generally due within 30 to 90 days and are stated as amounts due from customers net of allowances for doubtful accounts, and other sales allowances. Accounts outstanding longer than the contractual payment terms are considered past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, the customer's current ability to pay its obligation to us, and the condition of the general economy and the industry as a whole. We write off accounts receivable when we determine they are uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Actual uncollectible accounts could exceed our estimates and changes to our estimates will be accounted for in the period of change.

### INVENTORIES:



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Inventories are valued at the lower of cost or market ("LCM"). For purposes of analyzing the LCM, market is current replacement cost. Market cannot exceed the net realizable value (i.e., estimated selling price in the ordinary course of business less reasonably predicted costs of completion and disposal) and market shall not be less than net realizable value reduced by an allowance for an approximately normal profit margin. In evaluating LCM, management also considers, if applicable, other factors as well, including known trends, market conditions, currency exchange rates and other such issues. If the utility of goods is impaired by damage, deterioration, obsolescence, changes in price levels or other causes, a loss shall be charged as cost of sales in the period which it occurs.

We make purchasing decisions principally based upon firm sales orders from customers, the availability and pricing of raw materials and projected customer requirements. Future events that could adversely affect these decisions and result in significant charges to our operations include slowdown in customer demand, customer delay in the issuance of sales orders, miscalculation of customer requirements, technology changes that render raw materials and finished goods obsolete, loss of customers and/or cancellation of sales orders. We establish reserves for our inventories to recognize estimated obsolescence and unusable items on a continual basis.

Products that have existed in inventory for one calendar year with no usage and that have no current demand or no expected demand, will be considered obsolete and fully reserved. Obsolete inventory approved for disposal is written-off against the reserve. Furthermore, consideration is given to ultimate circumstances when recording inventory reserves and the disposal of inventory considered obsolete. Market conditions surrounding products are also considered periodically to determine if there are any net realizable valuation matters, which would require a write-down of any related inventories. If market or technological conditions change, it may result in additional inventory reserves and write-downs, which would be accounted for in the period of change. The level of inventory reserves reflects the nature of our industry whereby technological and other changes, such as customer buying requirements, result in impairment of inventory.

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### GOODWILL IMPAIRMENT:

Management assesses goodwill for impairment at the reporting unit level on an annual basis or more frequently under certain circumstances. Such circumstances include (i) significant adverse change in legal factors or in the business climate, (ii) an adverse action or assessment by a regulator, (iii) unanticipated competition, (iv) a loss of key personnel, (v) a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of, and (vi) recognition of an impairment loss in a subsidiary that is a component of a reporting unit. Management must make assumptions regarding estimating the fair value of our reporting units. If these estimates or related assumptions change in the future, we may be required to record an impairment charge. Impairment charges would be included in general and administrative expenses in our statements of operations, and would result in reduced carrying amounts of the goodwill.

### ACQUISITIONS:

In all acquisitions, the purchase price of the acquired business is allocated to the assets acquired and liabilities assumed at their fair values on the date of the acquisition. The fair values of these items were based upon management's estimates. Certain of the acquired assets are intangible in nature, including customer relationships, patented and proprietary technology, covenants not to

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compete, trade names and order backlog. The excess purchase price over the amounts allocated to the assets is recorded as goodwill.

All such valuation methodologies, including the determination of subsequent amortization periods, involve significant judgments and estimates. Different assumptions and subsequent actual events could yield materially different results.

### LONG LIVED ASSETS:

The Company accounts for the impairment of long-lived assets in accordance with FAS 142, "Accounting for Goodwill and Other Intangible Assets" and FAS 144, "Accounting for the Impairment of Disposal of Long-Lived Assets". Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Management assesses the recoverability of long-lived assets whenever events or changes in circumstance indicate that the carrying value may not be recoverable. The following factors, if present, may trigger an impairment review:

- (i) Significant underperformance relative to expected historical or projected future operating results;
- (ii) Significant negative industry or economic trends;
- (iii) Significant decline in stock price for a sustained period; and
- (iv) A change in market capitalization relative to net book value.

If the recoverability of these assets is unlikely because of the existence of one or more of the above-mentioned factors, an impairment analysis is performed using a projected discounted cash flow method at the appropriate level (lowest level at which cash flows is identifiable).

Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. Other factors could include, among other things, quoted market prices, or other valuation techniques considered appropriate based on the circumstances. If these estimates or related assumptions change in the future, an impairment charge may need to be recorded. Impairment charges would be included in our statements of operations, and would result in reduced carrying amounts of the related assets on our balance sheet.

### INCOME TAXES:

We file income tax returns in every jurisdiction in which we have reason to believe that we are subject to tax. Historically, we have been subject to examination by various taxing jurisdictions. To date, none of these examinations has resulted in any material additional tax. Nonetheless, any tax jurisdiction may contend that our filing position regarding one or more of our transactions is contrary to that jurisdiction's laws or regulations.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in financial statements or tax

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returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of existing assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Realization of a deferred tax asset is dependent on generating future taxable income. During the fiscal year ended March 31, 2002, we provided a valuation allowance against deferred tax assets since we believed at the time that enough uncertainty existed regarding the realizability of our deferred tax assets. However, because of the current and expected future results of the company, taking into account the current status of our litigation (see Note 15 to the consolidated financial statements included in this Annual Report on Form 10-K for a discussion of our pending litigation), we have concluded that this valuation allowance against the deferred tax assets is no longer necessary, and have reversed the allowance against the provision for taxes in the fiscal year ended March 31, 2004. (See Note 12 to the Consolidated Financial Statements included in this Annual Report on Form 10-K for a further discussion of our taxes.)

The income tax provision is based upon the proportion of pretax profit in each jurisdiction in which we operate. The income tax rates in Hong Kong and China are less than those in the United States. Deferred income taxes are not provided on our subsidiaries' earnings which are expected to be reinvested. Distribution, in the form of dividends or otherwise, would subject our subsidiaries' earnings to United States income taxes, subject to an adjustment for foreign tax credits. Determination of the amount of unrecognized deferred United States income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

### WARRANTY RESERVE:

Our sensor and consumer products generally are marketed under warranties to end users of up to five years. Factors affecting our warranty liability include the number of products sold and historical and anticipated rates of warranty claims and cost per claim. We provide for estimated product warranty obligations at the time of sale, based on our historical warranty claims experience and assumptions about future warranty claims. This estimate is susceptible to changes in the near term based on introductions of new products, product quality improvements/declines and changes in end user application and/or behavior.

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### CONTINGENCIES AND LITIGATION:

We periodically assess the potential liabilities related to any lawsuits or claims brought against us. While it is typically very difficult to determine the timing and ultimate outcome of these actions, we use our best judgment to determine if it is probable that we will incur an expense related to a settlement for such matters and whether a reasonable estimation of such probable loss, if any, can be made. Given the inherent uncertainty related to the eventual outcome of litigation, it is possible that all or some of these matters may be resolved for amounts materially different from any estimates that we may have made with respect to their resolution.

### RESULTS OF OPERATIONS

FISCAL YEAR ENDED MARCH 31, 2005 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2004  
(in thousands, except percentages)

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### ANALYSIS OF CONSOLIDATED STATEMENTS OF INCOME

|                                       | 2005      | 2004      | PERCENTAGE<br>CHANGE |
|---------------------------------------|-----------|-----------|----------------------|
| Net Sales                             | \$140,941 | \$112,813 | 24.93%               |
| Sensors                               | 92,268    | 60,247    | 53.15%               |
| Consumer products                     | 48,673    | 52,566    | -7.41%               |
| Gross profit                          | 59,406    | 50,300    | 18.10%               |
| Selling, general, and administrative  | 35,796    | 30,448    | 17.56%               |
| Litigation expense                    | -         | 1,500     | -100.00%             |
| Non-Cash Equity Based Compensation    | -         | 6,483     | -100.00%             |
| Research and development, net         | 3,200     | 3,464     | -7.62%               |
| Restructuring costs                   | -         | 506       | -100.00%             |
| Interest expense, net                 | 637       | 323       | 97.18%               |
| Income taxes                          | 4,250     | (12,262)  | 134.66%              |
| Income (loss) from discontinued units | -         | 212       | -100.00%             |

The consolidated financial statements for the fiscal years ended March 31, 2005, 2004 and 2003 include the results of the ongoing operations of Measurement Specialties, Inc. As a result of our restructuring plan, we sold all of the outstanding stock of Terraillon in September 2002 and placed Schaevitz UK into receivership in June 2002.

Accordingly, Terraillon and Schaevitz UK are classified as discontinued operations in the consolidated financial results for all periods presented.

Net Sales.

SENSOR BUSINESS. Sensor sales increased \$32,021 from \$60,247 to \$92,268. Excluding sales from recent acquisitions of \$18,078, sales increased \$13,943, or 23.1%. The increase in net sales for our base Sensor business in the fiscal year ended March 31, 2005 is primarily a result of increased demand in our pressure, liquid level and traffic sensor products. The significant contributor to the increase in net sales for these lines is the expanded demand for the automotive sector with many new platforms adopting our sensor technology which resulted in strong growth for this market segment. Strong organic growth was also realized in our acceleration, pressure, security and tilt products in the industrial, high purity, off-road vehicle test and measurement and commercial market segments. Approximately \$17,100, or 94.5%, of the sales from recent acquisitions are attributable to Elekon, Entran, and Humirel.

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CONSUMER PRODUCTS BUSINESS. Net sales decreased \$3,893 in the fiscal year ended March 31, 2005. The US retail bath scale business decreased approximately \$11,800, mainly due to the sale of the Thinner(R) branded business to Conair. However, this decrease was more than offset by an increase of \$14,700 in the OEM bath scale business. There was a decrease in sales of approximately \$6,800 in the tire gauge line. The majority of this decrease is due to non-repeating promotions, changes in the scope and selection of customer product assortments, and a decline in selected OEM customers.

Gross Margin.

Gross margin as a percent of sales for the fiscal year ended March 31, 2005 decreased to 42.1% from 44.6% for the fiscal year ended March 31, 2004.

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SENSOR BUSINESS. Gross margin as a percent of sales for our base Sensor business (which excludes the effects of acquisitions) decreased slightly to 53.4% for the fiscal year ended March 31, 2005 from 54.2% for the fiscal year ended March 31, 2004. This change is due to the increase in sales of automotive sensors, which carries a lower gross margin than our average sensor business. Also contributing to the margin decline is higher commodity costs in our core sensor lines. Including acquisition sales, gross margin as a percent of sales for our Sensor business decreased to 50.3%. Elekon represents 36.5% of the acquired sales, and carries a substantially lower gross margin than our base sensor business. Due to higher sales of lower margin product, we anticipate sensor gross margin to decline to approximately 47% to 50% for the fiscal year ended March 31, 2006.

CONSUMER PRODUCTS BUSINESS. Gross margin as a percent of sales in our Consumer Products business decreased to 25.4% for the fiscal year ended March 31, 2005 from 32.0% for the fiscal year ended March 31, 2004. The majority of the decrease was in the bathroom scale product line, and is a result of lower margins associated with sales to original equipment manufacturers as opposed to retail customers. Margins in our tire gauge product line decreased by 2.2% as a result of retail pricing pressures. Due to continued pricing pressure with our OEM customers and increases in commodity costs, we anticipate gross margin to decline to 22% to 24% for the fiscal year ended March 31, 2006.

On a continuing basis our gross margin in the Sensor and Consumer Products businesses may vary due to product mix, sales volume, availability of raw materials and other factors.

Selling , General and Administrative. Selling, General and Administrative (SG&A) expenses increased from \$30,448 in fiscal 2004 to \$35,796 in fiscal 2005. Excluding SG&A expenses specifically associated with the acquired companies, SG&A expenses decreased to approximately \$29,146. The additional selling, general and administrative costs resulting from the Acquisitions were more than offset by lower expenses for employee profit sharing of \$1,855 and lower costs in the Consumer Product segment resulting from the Conair transaction. Partially offsetting the decline were increased professional fees of \$655, primarily associated with the implementation of Sarbanes-Oxley requirements, as well as the write-off of certain deferred financing costs from early loan termination fees associated with the debt refinancing \$225 and severance costs of a former executive \$210 recorded in the quarter ended December 31, 2004.

Litigation Expense. Litigation expensed decreased significantly during fiscal 2005 because the Company settled the SEC Investigation and the Class Action lawsuit for amounts which had been accrued during the prior fiscal year. We recorded a net charge of \$1,500 during the fiscal year ended March 31, 2004 relating to the SEC investigation, class action lawsuit, and the Hibernia Capital Partners litigation. This net charge represented the combination of a \$1,000 charge relating to the SEC investigation, an additional \$1,100 charge relating to the class action lawsuit, which was partially offset by the reversal of \$600 from the prior accrual upon the favorable settlement of the Hibernia lawsuit.

Non-Cash Equity Based Compensation. During the fiscal year ended March 31, 2004, we recorded a non-cash equity based compensation charge of \$6,483, or \$.46 per share diluted, for the vesting of the warrants issued to Four Corners Capital Partners LP, a limited partnership of which Mr. Guidone is a principal. There was no additional charge resulting from these warrants issued to Four Corners as all the warrants vested in the fiscal year ended March 31, 2004.

Research and Development. Customer-funded development for the fiscal year ended March 31, 2005 increased to \$268 compared to \$4 for the fiscal year ended March

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31, 2004. On a net basis, research and development costs decreased \$264. This decrease was due to the increase in customer funded development and little change in research and development spending.

**Restructuring Costs.** During the fiscal year ended March 31, 2005, we had no restructuring costs. For the fiscal year ended March 31, 2004, we recorded a charge of \$506 for additional costs relating to our restructuring plan. This charge resulted from the settlement of litigation related to our former facility in Valley Forge, Pennsylvania.

**Interest Expense, Net.** The increase in interest expense is attributable to an increase in average debt outstanding from \$2,657 for fiscal 2004 to \$8,455 for fiscal 2005, partially offset by a lower average interest rate. The increase in debt was due to acquisitions.

**Income Taxes.** The income tax benefit incurred during fiscal year 2004 was due to the reversal of the \$15.4 million valuation allowance for deferred tax assets, and the income tax expense incurred during fiscal year 2005 does not reflect any such adjustments. The current year tax rate of approximately 22.3 percent is lower than the prior year effective rate of approximately 25.8 percent, after taking into account the impact of the reversal of the valuation allowance. The decrease in the effective tax rate as compared to last year is mainly due to three factors: (i) a larger portion of income allocated to jurisdictions with lower tax rates, (ii) the recordation of deferred tax assets associated with certain temporary or timing differences for inventory reserves and depreciation, and (iii) the amortization of deferred tax liabilities relating to a number of the acquisitions.

During fiscal 2004, the valuation allowance for deferred tax assets was reversed. Based on the evaluation of relevant factors in fiscal 2004, a valuation allowance for deferred tax assets was recorded because it was determined that it was more likely than not that a portion or all of the deferred tax assets would not be realized. In arriving at our conclusion to reverse the valuation allowance at March 31, 2004, we took into consideration the guidance provided by FAS 109, after considering both positive and negative evidence. Our analysis of positive evidence supporting the conclusion that the valuation allowance was no longer applicable included the assessment of three key issues that principally lead to the allowance: substantial operating losses, debt and pending litigation.

Our analysis supporting the reversal of the valuation allowance was straight-forward, as the positive evidence which could be objectively verified outweighed the negative evidence. The current and expected results of the Company, as well as taking into account the status of litigation, indicated that the valuation allowance was not needed. The Company had fully executed a restructuring whereby the Company returned to profitability, as supported by the earnings during fiscal 2004. Our provision for income taxes differs from the statutory US federal income tax rate due to our estimate and distribution of the full year's tax rate based upon the expected taxable income taxed at the applicable jurisdiction's tax rate. The expectations and estimates utilized in calculating the tax provision and our effective tax rate on a quarterly basis involve complex domestic and foreign tax issues and are monitored closely and subject to change based on ultimate circumstances. The utilization during fiscal 2005 of a portion of the Company's net operating loss carry forward of \$25,326 at March 31, 2005 will greatly reduce the Company's cash payment for the U.S. portion of the provision for income taxes.

We continue to evaluate the implications of the recently enacted American Jobs Creation Act of 2004. Due to, among other things, the volume of manufacturing in the US and our net operating loss carry-forwards, we do not expect this Act to have an immediate and significant impact on our effective tax rates.

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Discontinued Operations. The income from discontinued operations in the fiscal year ended March 31, 2004 reflects additional proceeds from the receiver associated with the Schaevitz UK liquidation. There were no additional proceeds in the fiscal year ended March 31, 2005.

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### RESULTS OF OPERATIONS

FISCAL YEAR ENDED MARCH 31, 2004 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2003  
(in thousands, except percentages)

|                                       | 2004      | 2003      | PERCENTAGE<br>CHANGE |
|---------------------------------------|-----------|-----------|----------------------|
| Net Sales                             | \$112,813 | \$107,676 | 4.77%                |
| Sensors                               | 60,247    | 52,326    | 15.14%               |
| Consumer products                     | 52,566    | 55,350    | -5.03%               |
| Gross profit                          | 50,300    | 37,996    | 32.38%               |
| Selling, general, and administrative  | 30,448    | 34,245    | -11.09%              |
| Litigation expense                    | 1,500     | 3,550     | -57.75%              |
| Non-Cash Equity Based Compensation    | 6,483     | -         | -                    |
| Research and development, net         | 3,464     | 3,227     | 7.34%                |
| Restructuring costs                   | 506       | 1,219     | -58.49%              |
| Interest expense, net                 | 323       | 2,057     | -84.30%              |
| Income taxes                          | (12,262)  | 483       | -2638.72%            |
| Income (loss) from discontinued units | 212       | (3,910)   | 105.42%              |

The consolidated financial statements for the fiscal years ended March 31, 2004 and 2003 include the results of the ongoing operations of Measurement Specialties, Inc. As a result of our restructuring plan, we sold all of the outstanding stock of Terraillon in September 2002 and placed Schaevitz UK into receivership in June 2002.

Accordingly, Terraillon and Schaevitz UK are classified as discontinued operations in the consolidated financial results for all periods presented.

#### Net Sales.

**Sensor Business.** Sensor sales increased \$7,921, or 15.1% from the fiscal year ended March 31, 2003 to the fiscal year ended March 31, 2004. This increase was due to increased IC Sensors (ICS) and Microfused product line sales during fiscal 2005 as compared to the same period in the prior fiscal year. The improved ICS product line sales of \$4,021 were the result of increased demand from existing and new customers in the medical field, the introduction of a new line of instrumentation grade pressure transducers, as well as increased sales in the European and Asian markets. The improved Microfused product line sales of \$4,025 were primarily due to continued growth in demand in the automotive sector due to the introduction of new customer platforms. The increase in the automotive demand accounted for \$2,784. The Microfused product line sales also increased across other markets to include medical, industrial, refrigeration, and flow measurement.

**Consumer Products Business.** The decrease in net sales of \$2,784 for our Consumer

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Products business in the fiscal year ended March 31, 2004 is primarily attributable to lower bath scale and kitchen accessory sales, which were slightly offset by an increase in tire gauge sales in the U.S. Bath scale sales decreased from \$41,146 to \$36,378 due to the Conair transaction, as Conair made virtually no purchases in the month of February as they assessed the inventory that was acquired as part of the transaction. In addition, net sales will decline for the portion of the scale business that was sold to Conair because we are no longer selling at retail sales prices, which are higher than sales prices to OEM customers. Kitchen accessory sales decreased to \$1,038 in the year ending March 31, 2004 compared to the prior year sales of \$1,821 due to underperformance in this product category. Accordingly, we have decided to discontinue selling kitchen accessories. Tire gauge sales improved from \$12,383 to \$16,179 due to increases in core business with some of our major customers.

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### Gross Margin.

Gross margin as a percent of sales for the fiscal year ended March 31, 2004 increased to 44.6% from 35.3% for the fiscal year ended March 31, 2003.

Sensor Business. Gross margin as a percent of sales for our Sensor business increased to 54.2% for the fiscal year ended March 31, 2004 from 41.1% for the fiscal year ended March 31, 2003. The continued contribution margin improvement in the Sensor Business was primarily due to more efficient manufacturing operations and decreased material costs, as more raw materials were purchased in Asia. This improvement accounted for a reduction of 5% of variable costs directly associated with manufacturing. Our increased operations efficiency over the prior year was the direct result of our continued focus on production planning and implementation of our restructuring plan. This accounted for an improvement of approximately 8%.

Consumer Products Business. Gross margin as a percent of sales in our Consumer Products business increased to 32.0% for the fiscal year ended March 31, 2004 from 30.7% for the fiscal year ended March 31, 2003. The increase in gross margin for our Consumer Products business in the fiscal year ended March 31, 2004 is primarily due to improved margins on our sales to original equipment manufacturers. The margins on sales to original equipment manufacturers improved as a result of improved product mix, lower freight costs and a reduction in material costs due to our concentration on the more efficient use of raw materials in the manufacturing process. The margin on our retail customer sales increased slightly for the period ended March 31, 2004 as compared to the same period ended March 31, 2003. This increase was mainly due to lower freight and material costs, offset slightly by lower margins for the kitchen accessories product category. Together, the improved margins on the OEM and retail business are responsible for that 1.3% increase in gross margin. This is slightly offset by the kitchen accessory line's drop in margin from 38.0% in fiscal 2003 to 17.5% in fiscal 2004. We have decided to no longer sell kitchen accessories and liquidated much of the remaining inventory in the fiscal year ended March 31, 2004 at margins below historical levels.

On a continuing basis our gross margin in the Sensor and Consumer Products businesses may vary due to product mix, sales volume, availability of raw materials and other factors.

Selling, General and Administrative. Selling, General and Administrative (SG&A) expenses decreased to \$30,448 in fiscal 2004 from \$34,245 in fiscal 2003. Legal and professional fees decreased approximately \$6,260 in the fiscal year ended March 31, 2004 as compared to the fiscal year ended March 31, 2003. The higher professional fees in the fiscal 2003 period as compared to the fiscal 2004 period were due to a higher level of professional activity relating to the



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restatement of our financial statements and the class action lawsuit and the SEC investigation. Offsetting these declines is an overall charge of \$2,851 in the fiscal year ended March 31, 2004 for employee bonus payouts and the employer's match against the employee contributions to the 401-K plan as a result of the improvement in company performance.

Litigation Expense. Litigation fees decreased from \$3,550 in the fiscal year ended March 31, 2003 to \$1,500 in the fiscal year ended March 31, 2004. We recorded a net charge of \$1,500 during the fiscal year ended March 31, 2004 relating to the SEC investigation, class action lawsuit, and the Hibernia Capital Partners litigation. This net charge represents the combination of a \$1,000 charge relating to the SEC investigation, an additional \$1,100 charge relating to the class action lawsuit, offset by the reversal of \$600 from the prior accrual upon the favorable settlement of the Hibernia lawsuit. Litigation fees of \$3,550 during the fiscal year ended March 31, 2003 relate to a \$2,800 accrual for the class action lawsuit and \$750 accrual for the Hibernia lawsuit.

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Non-Cash Equity Based Compensation. During the fiscal year ended March 31, 2004, we recorded a non-cash equity based compensation charge of \$6,483, or \$.46 per share diluted, for the vesting of the warrants issued to Four Corners Capital Partners LP, a limited partnership of which Mr. Guidone is a principal. The vesting of these warrants was based on a combination of time and performance factors. The warrants were scheduled to vest beginning the last day of July 2003 through the last day of April 2007 at a rate of 35%, 30%, 20% and 15%, respectively, in each of the four years following the grant date of the warrant. The warrants provided the right to buy shares from time to time until April 30, 2013 with the potential of a reduced vesting period if the Company's stock price reached certain levels, as shown in the table below:

| Period       | Acceleration Price | Number of Shares |
|--------------|--------------------|------------------|
| Period One   | \$7.50             | 210,000          |
| Period Two   | \$10.00            | 180,000          |
| Period Three | \$12.00            | 120,000          |
| Period Four  | \$15.00            | 90,000           |

The vesting of the warrants was accelerated and became vested on September 18, 2003, October 24, 2003, November 28, 2003, and January 22, 2004, respectively, because the Company's stock price increased to a level above the defined acceleration prices. (See Note 10 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.)

Research and Development. We had virtually no customer-funded development for the fiscal year ended March 31, 2004 compared with \$367 for the fiscal year ended March 31, 2003. On a net basis, research and development costs increased \$237, or 7.3%, to \$3,464 for the fiscal year ended March 31, 2004 from \$3,227 for the fiscal year ended March 31, 2003. This change resulted from decreased customer-funded development which was partially offset by decreased research and development efforts in our Sensor business.

Restructuring Costs. Restructuring costs decreased from \$1,219 for the fiscal year ended March 31, 2003 to \$506 for the fiscal year ended March 31, 2004. During the fiscal year ended March 31, 2004, we recorded a charge of \$506 for

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additional costs relating to our restructuring plan. This charge resulted from the settlement of litigation related to our former facility in Valley Forge, Pennsylvania. The restructuring costs of \$1,219 in fiscal 2003 relate to severance and lease costs relating to reductions in our workforce and consolidation of operations.

Interest Expense, Net. The decrease in interest expense is attributable to a \$14,122 reduction in average debt outstanding from \$16,298 for the fiscal year ended March 31, 2003 to \$2,176 for the fiscal year ended March 31, 2004.

Income Taxes. Our provision for income taxes includes taxes payable by our foreign subsidiaries. For U.S. tax purposes, our available net operating loss carry-forwards will offset all current fiscal year taxable income.

During the fiscal year ended March 31, 2002, we provided a valuation allowance against deferred tax assets since we believed at the time that enough uncertainty existed regarding the realization of our deferred tax assets. The Company reversed this valuation allowance for the year ended March 31, 2004. Our analysis of positive evidence supporting the conclusion that the valuation allowance was no longer applicable included the assessment of three key issues that principally lead to the allowance: Substantial operating losses, debt and pending litigation. Our analysis supporting the reversal of the valuation allowance was straight-forward, as the positive evidence which could be objectively verified outweighed the negative evidence. Current and expected results of the Company, as well as taking into account the status of litigation at that time, indicated that the valuation allowance was not needed. The Company had fully executed a restructuring whereby the Company returned to profitability, as supported by the strong earnings during fiscal 2004, coupled with the elimination of debt, a forecast indicating the Company would generate more than enough taxable income to realize the deferred tax assets and the status of litigation, the Company reversed the valuation allowance for the deferred tax assets. (See Note 12 to the Consolidated Financial Statements included in this Annual Report on Form 10-K for a further discussion on taxes.)

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Discontinued Operations. The income from discontinued operations in the fiscal year ended March 31, 2004 reflects additional proceeds from the receiver associated with the Schaevitz UK liquidation.

### LIQUIDITY AND CAPITAL RESOURCES

Operating working capital (accounts receivable plus inventory less accounts payable) increased by \$10,996 from \$16,261 as of March 31, 2004 to \$27,257 as of March 31, 2005. The increase was attributable to an increase in accounts receivable of \$6,359 from \$14,010 at March 31, 2004 to \$20,369 at March 31, 2005, an increase in inventory of \$10,112 from \$10,170 at March 31, 2004 to \$20,282 at March 31, 2005 and offset by an increase in accounts payable of \$5,475 from \$7,919 at March 31, 2004 to \$13,393 at March 31, 2005. The \$10,996 increase in operating working capital is partially attributed to the \$4,800 of net operating working capital from the acquisition of Elekon, Entran, Encoder, Humirel, Polaron and MWS. The remaining increase in inventory is attributable to higher sales, as well as our attempt to reposition and establish inventory buffers in order to reduce manufacturing lead times. We anticipate improving turnover to historical levels over the next several quarters.

Cash provided from operating activities was \$11,377 for the fiscal year ended March 31, 2005, as compared to \$10,405 provided for the fiscal year ended March 31, 2004. Included in cash provided from operations for the fiscal year ended March 31, 2005 is \$2,100 of costs paid to settle our SEC investigation and securities class action litigation, as compared to \$1,450 for same period last

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year (See Note 15 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.)

Investing activities included cash payments, net of cash acquired, of \$43,691 for the acquisition of Elekon, Entran, Encoder, Humirel, Polaron and MWS. In addition, capital spending increased to \$4,631 for the fiscal year ended March 31, 2005 from \$1,943 for the fiscal year ended March 31, 2004. The increase in capital spending is primarily attributable to investment in revenue generating projects at our Shenzhen, China facility. Capital spending is expected to be in the range of \$5,500 to \$6,500 for the fiscal year ended March 31, 2006. Financing activities for the fiscal year ended March 31, 2005 provided \$22,100, reflecting financing for the acquisitions, and proceeds from the exercise of employee stock options.

### Revolving Credit Facility:

On December 17, 2004, the Company entered into a new, \$35,000 five-year credit agreement with GE Commercial Finance, Commercial & Industrial Finance ("GE"), comprised of a \$20,000 term loan and \$15,000 revolving credit facility. JP Morgan Chase Bank, N.A. and Wachovia Bank National Association participated in the syndication. Interest accrues on the principal amount of borrowings at a rate based on either a London Inter-bank Offered Rate (LIBOR) rate plus a LIBOR margin or at an Index (prime based) Rate plus an Index Margin. The LIBOR or Index Rate is at the election of the borrower. From the closing date to the second anniversary date of the closing, the applicable LIBOR and Index Margins are 4.50% and 2.75%, respectively, and from the second anniversary, the applicable LIBOR and Index Margins are 4.25% and 2.50%, respectively, subject to a 2% increase upon the occurrence of an event of default under the credit agreement. The term loan is payable in nineteen equal quarterly installments beginning on March 1, 2005 through December 17, 2009. Proceeds from the new credit facility were primarily used to support the acquisition of Humirel (See Note 5 to the Consolidated Financial Statements included in this Annual Report on Form 10-K), ordinary working capital and general corporate needs and replaced the \$15,000 revolving credit facility with Bank of America Business Capital (formerly Fleet Capital Corporation). The Company has provided a security interest in substantially all of the Company's assets as collateral for the new credit facilities. Borrowings under the line are subject to certain financial covenants and restrictions on indebtedness, dividend payments, financial guarantees, and other related items. The most restrictive covenant relates to limits on capital spending. At March 31, 2005, the Company was in compliance with applicable debt covenants.

As of March 31, 2005, the Company utilized the LIBOR based Index Rate, and the interest rate applicable to borrowings under the revolving credit facility was 8.5%. As of March 31, 2005, the outstanding borrowings on the term loan and revolver were \$19,500 and \$1,400 respectively, and the Company had the right to borrow an additional \$13,600 under the revolving credit facility. The revolving credit facility is not directly based on any borrowing base requirements.

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The weighted average interest rate for the above credit facilities was 7.26% for the twelve months ended March 31, 2005. The average amount outstanding under the above credit facilities for the twelve months ended March 31, 2005 was \$8,455.

### Promissory Notes:

In connection with the acquisition of Elekon Industries USA, Inc. (See Note 5 to the Consolidated Financial Statements included in this Annual Report on Form 10-K ), the Company issued unsecured Promissory Notes ("Notes") totaling \$3,000, of which \$2,300 was outstanding and \$1,200 considered current at March 31, 2005.

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The Notes amortize over a period of three years, are payable quarterly and bear interest at 6%.

### Other Short-Term Debt:

In connection with the acquisition of Entran and Humirel, the Company assumed short-term borrowing of those companies that totaled \$685 at March 31, 2005. This amount is included in short-term debt in the consolidated balance sheet.

### Liquidity:

At May 31 2005, we had approximately \$ 6,916 of available cash and \$13,600 of borrowing capacity under our revolving credit facility. This amount includes the increased borrowing capacity resulting from the Acquisitions. The decline in the cash balance and increase in borrowing from March 31, 2004 primarily reflects the use of \$43,691 of cash and borrowings of \$20,000 to fund the Acquisitions. See Note 5 to the Consolidated Financial Statements included in this Annual Report on Form 10-K for a discussion on the Acquisitions.

### OTHER COMPREHENSIVE INCOME

Other comprehensive income consists of foreign currency translation adjustments and unrealized gains on currency hedging contracts. The increase in other comprehensive income is due the changes in the exchange rate of the US dollar relative to the Euro for the Euro denominated operations of Humirel SA and Entran SA.

### DEFERRED REVENUE

On January 30, 2004, Conair Corporation purchased certain assets of our Thinner(R) branded bathroom and kitchen scale business, and now owns worldwide rights to the Thinner(R) brand name and exclusive rights to the Thinner(R) designs in North America. We accounted for the sale of this business under the guidance of EITF 00-21.

### DIVIDENDS

We have not declared cash dividends on our common equity. The payment of dividends is prohibited under the existing credit agreement with GE. We may, in the future, declare dividends under certain circumstances.

At present, there are no material restrictions on the ability of our Hong Kong subsidiary to transfer funds to us in the form of cash dividends, loans, advances, or purchases of materials, products, or services. Chinese laws and regulations, including currency exchange controls, restrict distribution and repatriation of dividends by our China subsidiary.

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### SEASONALITY

Our sales of consumer products are seasonal, with highest sales during the second and third fiscal quarters. Sales of sensor products are not seasonal.

### INFLATION

We compete on the basis of product design, features, and value. Accordingly, our revenues generally have kept pace with inflation, notwithstanding that inflation in the countries where our subsidiaries are located has been consistently higher than inflation in the United States. Increases in labor costs have not had a significant impact on our business because most of our employees are in China,

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where prevailing labor costs are low. However, we have experienced some significant increases in materials costs, in particular increases in steel and resin costs in our consumer business, and as a result have suffered a decline in margin.

### OFF BALANCE SHEET ARRANGEMENTS

We do not have any financial partnerships with unconsolidated entities, such as entities often referred to as structured finance, special purpose entities or variable interest entities which are often established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had such relationships.

### AGGREGATE CONTRACTUAL OBLIGATIONS

As of March 31, 2005, the Company's contractual obligations, including payments due by period, are as follows:

#### Contractual Obligations

|  | PAYMENT DUE BY PERIOD |                  |                 |                 |                   |            |
|--|-----------------------|------------------|-----------------|-----------------|-------------------|------------|
|  | TOTAL                 | LESS THAN 1 YEAR | 1-3 YEARS       | 3-5 YEARS       | MORE THAN 5 YEARS |            |
| (LONG-TERM DEBT OBLIGATIONS)   | \$23,538              | \$ 3,510         | \$ 5,873        | \$14,021        | \$                | 134        |
| (CAPITAL LEASE OBLIGATIONS)  | \$ 645                | \$ 264           | \$ 345          | \$ 36           | \$                | 0          |
| (OPERATING LEASE OBLIGATIONS)  | \$ 6,218              | \$ 1,992         | \$ 2,126        | \$ 1,383        | \$                | 717        |
| (PURCHASE OBLIGATIONS)   | \$ 0                  | \$ 0             | \$ 0            | \$ 0            | \$                | 0          |
| DEFERRED ACQUISITION PAYMENTS  | \$ 5,789              | \$ 1,720         | \$ 4,069        | \$ 0            | \$                | 0          |
| (OTHER LONG-TERM LIABILITIES REFLECTED ON THE REGISTRANT'S BALANCE SHEET UNDER GAAP) | \$ 0                  | \$ 0             | \$ 0            | \$ 0            | \$                | 0          |
| <b>TOTAL</b>   | <b>\$36,190</b>       | <b>\$ 7,486</b>  | <b>\$12,413</b> | <b>\$15,440</b> | <b>\$</b>         | <b>851</b> |

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a certain level of foreign currency exchange risk.

Most of our revenues are priced in United States dollars. Most of our costs and expenses are priced in United States dollars, with the remaining priced in Chinese renminbi, Euros and Hong Kong dollars. Accordingly, the competitiveness of our products relative to products produced locally (in foreign markets) may be affected by the performance of the sales out of the United States dollar compared with that of our foreign customers' currencies. United States sales were \$68,555, \$77,537 and \$81,794, or 48.6%, 68.7% and 76.0% of net sales, for the fiscal years ended March 31, 2005, 2004 and 2003, respectively. Sales from our foreign facilities were \$72,386, \$35,276, and \$25,882 or 51.4%, 31.3% and 24.0% of net sales, for the fiscal years ended March 31, 2005, 2004, and 2003,

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respectively. We are exposed to foreign currency transaction and translation losses, which might result from adverse fluctuations in the value of the Euro, Hong Kong dollar and Chinese renminbi.

At March 31, 2005, we had net assets of \$48,009 in the United States. At March 31, 2005, we had net assets of \$49 in Europe, subject to fluctuations in the value of the Euro against the dollar. At March 31, 2005, we had net assets of \$9,503 in Hong Kong subject to fluctuations in the value of the Hong Kong dollar and net assets of \$10,455 in China subject to fluctuations in the value of the Chinese renminbi. We had net assets of \$23,893 and \$7,088 in the United States, at March 31, 2004 and 2003, respectively. At March 31, 2004 and March 31, 2003, we had no net assets in Europe. At March 31, 2004, we had net assets of \$4,836 in Hong Kong subject to fluctuations in the value of the Hong Kong dollar and net assets in China of \$7,330 subject to fluctuations in the value of the Chinese renminbi. At March 31, 2003, we had net liabilities of \$2,045 in Hong Kong subject to fluctuations in the value of the Hong Kong dollar and net assets of \$13,743 in China subject to fluctuations in the value of the Chinese renminbi.

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 United States dollar. However, there can be no assurance that the value of the Hong Kong dollar will continue to be tied to that of the United States dollar. China adopted a floating currency system on January 1, 1994, unifying the market and official rates of foreign exchange. China approved current account convertibility of the Chinese renminbi on July 1, 1996, followed by formal acceptance of the International Monetary Fund's Articles of Agreement on December 1, 1996. These regulations eliminated the requirement for prior government approval to buy foreign exchange for ordinary trade transactions, though approval is still required to repatriate equity or debt, including interest thereon. The Chinese government is currently reevaluating its foreign currency policy, and there have been indications, as reported widely in the news media, that the Chinese government may in fact allow the Chinese renminbi to revalue in the foreseeable future. Based on the net exposure of renminbi to US dollars for the fiscal year ended March 31, 2005, we estimate a negative operating income impact of \$135 for every 1% appreciation in renminbi against US dollar (assuming no associated cost increases or currency hedging).

Based on the net exposures of Euros to the US dollars for the fiscal year ended March 31, 2005, we estimate a positive operating income impact of \$95 for every 1% appreciation in Euros relative to the US dollar (assuming no associated costs increases or currency hedging).

The Company acquired a number of foreign currency exchange contracts with the purchase of Humirel. These currency contracts have a total notional amount of \$9,650 with exercise dates through December 31, 2005 at an average exchange rate of \$1.27 (Euro to US dollar conversion rate). These derivatives are designated as cash-flow hedges, and changes in their fair value are carried in accumulated other comprehensive income until the hedged transaction affects earnings. When the hedged transaction affects earnings, the appropriate gain or loss from the derivative designated as a hedge of the transaction is reclassified from accumulated other comprehensive income to cost of sales. As of March 31, 2005, the amount that will be reclassified from accumulated other comprehensive income to cost of sales over the next twelve months is an unrealized loss of \$7. There is no ineffective portion of the derivatives.

There can be no assurance that these currencies will remain stable or will fluctuate to our benefit. To manage our exposure to foreign currency transaction and translation risks, we may purchase currency exchange forward contracts, currency options, or other derivative instruments, provided such instruments may be obtained at suitable prices. However, to date, other than for the foreign

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currency exchange contracts acquired with the purchase of Humirel, we have not done so.

We are exposed to a certain level of interest rate risk. Interest on the principal amount of our borrowings under our revolving credit facility accrues at a rate based on either a London Inter-bank Offered Rate (LIBOR) rate plus a LIBOR margin or at an Indexed (prime based) Rate plus an Index Margin. The LIBOR or Index Rate is at our election. Our results will be adversely affected by any increase in interest rates. For example, for every \$1,000 of debt outstanding, an annual interest rate increase of 100 basis points would increase interest expense and decrease our after tax profitability by \$10. We do not hedge this interest rate exposure.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data are listed below in Item 15: Exhibits, Financial Statement Schedules and are filed with this report.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

#### ITEM 9A. CONTROLS AND PROCEDURES

##### EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Measurement Specialties, Inc.'s management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2005. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2005, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

##### MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Measurement Specialties, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external

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purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

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- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2005. In making this assessment, Measurement Specialties, Inc.'s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment, management concluded that, as of March 31, 2005, our internal control over financial reporting was effective based on those criteria.

Our management's assessment of the effectiveness of our internal control over financial reporting as of March 31, 2005 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which appears under Item 15.

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
MEASUREMENT SPECIALTIES INC. AND SUBSIDIARIES

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Measurement Specialties Inc. and Subsidiaries maintained effective internal control over financial reporting as of March 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all



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material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or

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timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Measurement Specialties Inc. and Subsidiaries maintained effective internal control over financial reporting as of March 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of March 31, 2005 and 2004 and the related consolidated statements of operations, shareholders' equity and cash flows, for each of the three years in the period ended March 31, 2005, and our report dated June 10, 2005 expressed an unqualified opinion on those financial statements.

Grant Thornton LLP

New York, New York  
June 10, 2005

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### ITEM 9B. OTHER INFORMATION

None.

### PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Apart from certain information concerning our Code of Conduct which is set forth below in this Item,, other information required by this Item is incorporated herein by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on September 13, 2005, including the information set forth under the captions "Election of Directors", "Committees of the Board of Directors", and "Executive Officers".

We have a Code of Conduct that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. You can find our Code of Conduct on our website by going to the following address: [www.msiusa.com](http://www.msiusa.com). Also on our website we will post any amendments to the Code of Conduct, as well as any waivers that are required to be disclosed by the rules of either the Securities and Exchange Commission or The American Stock Exchange, on our website.

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### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on September 13, 2005, including the information set forth under the captions "Executive Compensation" and "Compensation Committee Interlocks and Insider Participation."

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table provides information with respect to the equity securities that are authorized for issuance under our compensation plans as of March 31, 2005:

#### EQUITY COMPENSATION PLAN INFORMATION

#### EQUITY COMPENSATION PLAN INFORMATION

For the Year Ended March 31, 2005

| NUMBER OF<br>SECURITIES TO BE<br>ISSUED UPON<br>EXERCISE OF<br>OUTSTANDING<br>OPTIONS,<br>WARRANTS AND<br>RIGHTS | WEIGHTED-AVERAGE<br>EXERCISE PRICE OF<br>OUTSTANDING<br>OPTIONS, WARRANTS<br>AND RIGHTS | NUMBER OF SHARES<br>REMAINING FOR<br>FUTURE ISSUANCE<br>UNDER EQUITY<br>COMPENSATION PLANS<br>(EXCLUDING<br>SECURITIES<br>REFLECTED IN<br>COLUMN (A) ) |
|--|---|--|
|--|---|--|

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EQUITY COMPENSATION PLANS  
APPROVED BY SECURITY HOLDERS

EQUITY COMPENSATION PLANS  
NOT APPROVED BY SECURITY  
HOLDERS

|       |           |    |       |         |
|-------|-----------|----|-------|---------|
|       | 1,590,599 | \$ | 12.38 | 768,975 |
| TOTAL | 1,590,599 | \$ | 12.38 | 768,975 |

The other information required by this Item is incorporated by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on September 13, 2005, including the information set forth under the caption "Beneficial Ownership of Measurement Specialties Common Stock."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on September 13, 2005, including the information set forth under the caption "Executive Agreements and Related Transactions."

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on September 13, 2005, including the information set forth under the caption "Fees Paid to Our Independent Auditors."

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) The following consolidated financial statements and schedules are filed at the end of this report, beginning on page F-1. Other schedules are omitted because they are not required or are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

| DOCUMENT   | PAGES      |
|--|------------|
| Consolidated Statements of Operations for the Years Ended<br>March 31, 2005, 2004 and 2003     | F-1        |
| Consolidated Balance Sheets as of March 31, 2005 and 2004                                      | F-2 to F-3 |
| Consolidated Statements of Shareholders' Equity for the Years<br>March 31, 2005, 2004 and 2003 | F-4        |
| Consolidated Statements of Cash Flows for the Years Ended                                      | F-5 to F-6 |

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March 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements F-7

Schedule II - Valuation and Qualifying Accounts, for the Years Ended March 31, 2005, 2004 and 2003 S-1

(b) See Exhibit Index following this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEASUREMENT SPECIALTIES, INC.

By: /s/ FRANK GUIDONE  
-----

Frank Guidone

Chief Executive Officer

Date: June 13, 2005

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature  | Title   | Date          |
|--|---|---------------|
| -----<br>/s/ Frank Guidone<br>-----<br>Frank Guidone       | President, Chief Executive Officer and<br>Director (Principal Executive Officer)          | June 13, 2005 |
| -----<br>/s/ John P. Hopkins<br>-----<br>John P. Hopkins   | Chief Financial Officer (Principal Financial<br>Officer and Principal Accounting Officer) | June 13, 2005 |
| -----<br>/s/ Morton L. Topfer<br>-----<br>Morton L. Topfer | Chairman of the Board   | June 13, 2005 |

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/s/ John D. Arnold                      Director    June 13, 2005  
 -----  
 John D. Arnold

/s/ The Hon. Dan J. Samuel      Director    June 13, 2005  
 -----  
 The Hon. Dan J. Samuel

/s/ R. Barry Uber                      Director    June 13, 2005  
 -----  
 R. Barry Uber

EXHIBIT INDEX

| NUMBER  | DESCRIPTION   |
|---------|---|
| -----   | -----   |
| 3.1#    | Second Restated Certificate of Incorporation of Measurement Specialties, Inc.   |
| 3.2++   | Bylaws of Measurement Specialties, Inc.   |
| 4.1+    | Specimen Certificate for shares of common stock of Measurement Specialties, Inc.  |
| 10.1#   | Supply and Distribution Agreement dated September 26, 1997 between Korona GmbH & Co. KG and Measurement Specialties, Inc.                       |
| 44      |   |
| 10.2##  | Product Line Acquisition Agreement dated January 5, 2000 between Exeter Technologies, Inc., Dr. Michael Yaron and Measurement Specialties, Inc. |
| 10.3### | Stock Purchase Agreement dated February 11, 2000 between Perkin-Elmer, Inc. and Measurement Specialties, Inc.                                   |
| 10.4*   | Purchase Agreement dated August 4, 2000 between TRW Sensors & Components, Inc. and Measurement Specialties, Inc.                                |
| 10.5**  | Asset Purchase Agreement dated August 14, 1998 between AMP Incorporated, The Whitaker Corporation and Measurement Specialties, Inc.             |
| 10.6+   | Measurement Specialties, Inc. 1995 Stock Option Plan.   |
| 10.7*** | Measurement Specialties, Inc. 1998 Stock Option Plan.   |
| 10.8+   | Lease dated December 30, 1999 between Hollywood Place Company Limited and Measurement Limited for property in Kowloon, Hong Kong.               |
| 10.9+   | Lease dated September 14, 1977 between Schaevitz E.M. Limited and Slough Trading Estate Limited for property                                    |

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in Slough, England.

- 10.10+ Deed of Variation dated July 14, 1992 of Lease between Slough Trading Estate Limited and Lucas Schaevitz Limited.
- 10.11+ Assignment of Lease, dated August 4, 2000, from Lucas Schaevitz Limited to Measurement Specialties (England) Limited.
- 10.12+ License to Assign dated August 4, 2000 between Slough Trading Estate Limited, Lucas Schaevitz Limited, Measurement Specialties (England) Limited and Measurement Specialties, Inc. for property in Slough, England.
- 10.13+ Lease dated May 5, 1994 between Transcube Associates and Measurement Specialties, Inc. for property in Fairfield, New Jersey.

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- 10.14+ First Amendment dated February 24, 1997 to Lease between Transcube Associates and Measurement Specialties, Inc.
- 10.15+ Second Amendment dated July 10, 2000 to Lease between Transcube Associates and Measurement Specialties, Inc.
- 10.16+ First Amendment dated February 1, 2001 to Lease between Kelsey-Hayes Company and Measurement Specialties, Inc. for property in Hampton, Virginia.
- 10.17++ Lease Agreement dated May 20, 1986 between Semex, Inc. and Pennwalt Corporation and all amendments for property in Valley Forge, Pennsylvania.
- 10.18++ Lease Agreement dated January 10, 1986 between Creekside Industrial Associates and I.C. Sensors and all amendments for property in Milpitas, California.
- 10.19++ Lease Agreements for property in Shenzhen, China
- 10.20++ Lease dated August 4, 2000 between Kelsey-Hayes Company and Measurement Specialties, Inc. for property in Hampton, Virginia.
- 10.21++ Amended and Restated Revolving Credit, Term Loan and Security Agreement dated as of February 28, 2001 among Measurement Specialties, Inc., Measurement Specialties UK Limited, Summit Bank, The Chase Manhattan Bank and First Union National Bank as agent and all amendments.
- 10.22++ Agreement for the Purchase of the Share Capital of Terrailon Holdings Limited, dated 7 June 2001, among Hibernia Development Capital Partners LLP, Hibernia Development Capital Partners II LLP, Fergal Mulchrone and Chris Duggan and Andrew Gleeson and Measurement Specialties, Inc.

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- 10.23+ Supplemental Agreement, dated 11 July 2001, concerning the amendment of the Agreement for the Purchase of the Share Capital of Terrailon Holdings Limited, dated 7 June 2001.
- 10.24+++ Asset Purchase Agreement dated July 12, 2002 by and among Elmos Semiconductor AG, Silicon Microstructures, Inc., Measurement Specialties, Inc., and IC Sensors Inc. Stock Purchase Agreement, dated as of September 18, 2002, by and between FUKUDA (Luxembourg) S.a.r.l. and Measurement Specialties, Inc.
- 10.26#### Forbearance Agreement, dated as of July 2, 2002, by and among Wachovia Bank, National Association, for itself and as agent for Fleet National Bank and JP Morgan Chase Bank, Measurement Fleet National Bank and JP Morgan Chase Bank, Measurement Specialties, Inc.,
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- Measurement Specialties UK Limited, IC Sensors, Inc., Measurement Limited, Jingliang Electronics (Shenzhen) Co., Ltd. and Terrailon Holdings Limited.
- 10.27#### Agreement of Lease, commencing October 1, 2002, between Liberty Property Limited Partnership and Measurement Specialties, Inc.
- 10.28#### Sublease Agreement, dated August 1, 2002, between Quicksil, Inc. and Measurement Specialties, Inc.
- 10.29\*\*\*\* Senior Secured Note and Warrant Purchase Agreement, dated as of October 31, 2002, by and among Castletop Capital, L.P. and Measurement Specialties, Inc. (including first amendment thereto)
- 10.30\*\*\*\* Loan and Security Agreement, dated January 31, 2003, by and among Fleet Capital Corporation, Measurement Specialties, Inc. and IC Sensors, Inc.
- 10.31 Second Amendment to Loan and Security Agreement, effective as of the 11th day of April 2003, by and among Measurement Specialties, Inc., IC Sensors, Inc. and Fleet Capital Corporation.
- 10.32 Second Amendment to Senior Secured Note and Warrant Purchase Agreement, dated April 11, 2003, among Castletop Capital, L.P. Measurement Specialties, Inc. and IC Sensor, Inc.
- 10.33 Agreement of Purchase and Sale of Assets, dated January 30, 2004, between Measurement Specialties Inc. and Conair Corporation
- 10.34 Agreement of Purchase and Sale dated as of June 24, 2004 by and among Measurement Specialties Inc. and Thomas Dietiker and Wilma Dietiker
- 10.35 Stock Purchase Agreement dated as of July 16, 2004 by and among Measurement Specialties Inc., and the Principal

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Shareholders of Entran Devices, Inc. and Entran SA.

- 10.36 Asset Purchase Agreement dated as of July 16, 2004 between Measurement Specialties Inc. and Encoder Devices LLC.
- 10.37 Share Purchase Agreement dated as of December 17, 2004 by and among Measurement Specialties, Inc. Entran S.A. and the Principal Shareholders of Humirel S.A.
- 10.38 Loan and Security Agreement dated December 17, 2004 between Measurement Specialties, Inc. and General Electric Capital Corporation, Wachovia Bank and JPMorgan Chase Bank
- 21.1 Subsidiaries.
- 23.1 Consent of Grant Thornton LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
MEASUREMENT SPECIALTIES INC. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of Measurement Specialties Inc. and Subsidiaries (a Delaware corporation) as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial



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statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Measurement Specialties Inc. and Subsidiaries as of March 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule II is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also have audited, in accordance with the standards of the Public Company Oversight Board (United States), the effectiveness of Measurement Specialties Inc. and Subsidiaries' internal control over financial reporting as of March 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 10, 2005 expressed an unqualified opinion thereon.

GRANT THORNTON LLP

New York, New York  
June 10, 2005

### MEASUREMENT SPECIALTIES, INC CONSOLIDATED STATEMENTS OF OPERATIONS

|  | FOR THE YEAR ENDED |            |
|--|--------------------|------------|
| (\$ IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)                    | 2005               | 2004       |
| Net sales  | \$ 140,941         | \$ 112,667 |
| Cost of goods sold   | 81,535             | 62,111     |
|  | 59,406             | 50,556     |
| Gross profit   |                    |            |
| Operating expenses (income):   |                    |            |
| Selling, general and administrative                                      | 35,796             | 30,667     |
| Non-Cash Equity based Compensation (Selling, general and administrative) | -                  | 6          |
| Litigation expense   | -                  | 1          |
| Research and development   | 3,468              | 3,468      |
| Customer funded development  | (268)              |            |
| Amortization of acquired intangibles                                     | 774                |            |
| Restructuring costs  | -                  |            |
|  | 39,760             | 34,748     |

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|   |           |       |
|---|-----------|-------|
| Total operating expenses  | 39,770    | 42    |
| Operating income (loss)   | 19,636    | 7     |
| Interest expense, net   | 637       |       |
| Gain on sale of Assets  | -         | (1)   |
| Other expense (income)  | (77)      |       |
| Income (loss) from continuing operations before income taxes                    | 19,076    | 9     |
| Income tax  | 4,250     | (12)  |
| Income (loss) from continuing operations  | 14,826    | 21    |
| Discontinued operations:  |           |       |
| Income (loss) from operations of discontinued units (net of income tax benefit) | -         |       |
| Gain on disposition of discontinued units (net of income tax benefit)           | -         |       |
| Income (loss) from discontinued units   | -         |       |
| Net income (loss)   | \$ 14,826 | \$ 21 |
| Income (loss) per common share - Basic  |           |       |
| Income (loss) from continuing operations  | \$ 1.11   | \$    |
| Income (loss) from discontinued units   | -         |       |
| Net income (loss)   | \$ 1.11   | \$    |
| Income (loss) per common share - Diluted  |           |       |
| Income (loss) from continuing operations  | \$ 1.05   | \$    |
| Income (loss) from discontinued units   | -         |       |
| Net income (loss)   | \$ 1.05   | \$    |
| Weighted average shares outstanding - Basic                                     | 13,392    | 12    |
| Weighted average shares outstanding - Diluted                                   | 14,095    | 13    |