

Measurement Specialties Inc  
Form 10-Q  
February 03, 2010

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

FORM 10-Q

(MARK ONE)

- QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL QUARTERLY PERIOD ENDED DECEMBER 31, 2009

OR

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

COMMISSION FILE NUMBER: 1-11906  
MEASUREMENT SPECIALTIES, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

New Jersey  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

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

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the latest practicable date: At January 29, 2010, the number of shares outstanding of the Registrant's common stock was 14,514,457.

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MEASUREMENT SPECIALTIES, INC.  
 FORM 10-Q  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

(Amounts in thousands, except per share amounts)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Net sales	\$ 54,755	\$ 43,299	\$ 148,583	\$ 161,184
Cost of goods sold	32,795	24,379	92,472	91,987
Gross profit	21,960	18,920	56,111	69,197
Selling, general, and administrative expenses	17,713	16,866	51,513	54,963
Operating income	4,247	2,054	4,598	14,234
Interest expense, net	905	675	3,092	2,187
Foreign currency exchange loss (gain)	(64)	351	(1,037)	684
Other expense (income)	52	161	79	(193)
Income from continuing operations, before income taxes	3,354	867	2,464	11,556
Income tax expense (benefit) from continuing operations	(28)	(115)	280	2,830
Income from continuing operations, net of income taxes	3,382	982	2,184	8,726
Loss from discontinued operations, net of income taxes	(16)	-	(142)	-
Net income	3,366	982	2,042	8,726
Less: Net income attributable to noncontrolling interest	118	106	328	276
Net income attributable to Measurement Specialties, Inc. ("MEAS")	\$ 3,248	\$ 876	\$ 1,714	\$ 8,450
<b>Amounts attributable to MEAS common shareholders:</b>				
Income from continuing operations, net of income taxes	\$ 3,264	\$ 876	\$ 1,856	\$ 8,450
Loss from discontinued operations attributable to MEAS	(16)	-	(142)	-
Net income	\$ 3,248	\$ 876	\$ 1,714	\$ 8,450
<b>Earnings per common share - Basic:</b>				
Income from continuing operations, net of income taxes	\$ 0.22	\$ 0.06	\$ 0.13	\$ 0.58
Loss from discontinued operations attributable to MEAS	-	-	(0.01)	-
Net income - Basic	\$ 0.22	\$ 0.06	\$ 0.12	\$ 0.58
<b>Earnings per common share - Diluted:</b>				
Income from continuing operations, net of income taxes	\$ 0.22	\$ 0.06	\$ 0.13	\$ 0.58
Loss from discontinued operations attributable to MEAS	-	-	(0.01)	-
Net income - Diluted	\$ 0.22	\$ 0.06	\$ 0.12	\$ 0.58
Weighted average shares outstanding - Basic	14,504	14,464	14,492	14,461
Weighted average shares outstanding - Diluted	14,686	14,536	14,629	14,545

See accompanying notes to condensed consolidated financial statements.



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

(Amounts in thousands)	December 31, 2009	March 31, 2009
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 26,303	\$ 23,483
Accounts receivable trade, net of allowance for doubtful accounts of \$710 and \$898, respectively	28,934	28,830
Inventories, net	43,043	45,384
Deferred income taxes, net	933	2,067
Prepaid expenses and other current assets	3,797	3,968
Other receivables	1,019	458
Due from joint venture partner	776	1,824
Promissory note receivable	-	283
Income taxes receivable	2,580	-
<b>Total current assets</b>	<b>107,385</b>	<b>106,297</b>
Property, plant and equipment, net	45,351	46,875
Goodwill	100,142	99,176
Acquired intangible assets, net	25,627	27,478
Deferred income taxes, net	1,560	2,985
Other assets	1,376	1,319
<b>Total assets</b>	<b>\$ 281,441</b>	<b>\$ 284,130</b>

See accompanying notes to condensed consolidated financial statements.

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

(Amounts in thousands, except share amounts)	December 31, 2009	March 31, 2009
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of promissory notes payable	\$ 2,408	\$ 2,176
Current portion of long-term debt	2,471	2,356
Current portion of capital lease obligations	305	797
Accounts payable	17,166	15,381
Accrued expenses	5,103	3,041
Accrued compensation	5,937	5,656
Income taxes payable	-	1,838
Other current liabilities	4,117	3,394
<b>Total current liabilities</b>	<b>37,507</b>	<b>34,639</b>
Revolver	63,547	71,407
Promissory notes payable, net of current portion	4,817	4,352
Long-term debt, net of current portion	6,948	12,769
Capital lease obligations, net of current portion	143	250
Other liabilities	1,117	1,085
<b>Total liabilities</b>	<b>114,079</b>	<b>124,502</b>
<b>Equity:</b>		
Measurement Specialties, Inc. ("MEAS") shareholders' equity:		
Serial preferred stock; 221,756 shares authorized; none outstanding	-	-
Common stock, no par; 25,000,000 shares authorized; 14,509,957 and 14,483,622 shares issued and outstanding, respectively	-	-
Additional paid-in capital	84,279	81,948
Retained earnings	68,932	67,218
Accumulated other comprehensive income	12,150	8,110
<b>Total MEAS shareholders' equity</b>	<b>165,361</b>	<b>157,276</b>
Noncontrolling interest	2,001	2,352
<b>Total equity</b>	<b>167,362</b>	<b>159,628</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 281,441</b>	<b>\$ 284,130</b>

See accompanying notes to condensed consolidated financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 AND COMPREHENSIVE INCOME  
 FOR THE NINE MONTHS ENDED DECEMBER 31, 2009 AND 2008  
 (UNAUDITED)

(Dollars in thousands)	Shares of Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total	Comprehensive Income
Balance, March 31, 2008	14,440,848	\$ 78,720	\$ 61,939	\$ 15,130	\$ 1,953	\$ 157,742	
Comprehensive income:							
Net income		-	8,450	-	276	8,726	\$ 8,726
Currency translation adjustment		-	-	(3,544)	334	(3,210)	(3,210)
Comprehensive income							\$ 5,516
Non-cash equity based compensation		2,251	-	-	-	2,251	
Amounts from exercise of stock options	36,590	276	-	-	-	276	
Balance, December 31, 2008	14,477,438	\$ 81,247	\$ 70,389	\$ 11,586	\$ 2,563	\$ 165,785	
Balance, March 31, 2009	14,483,622	\$ 81,948	\$ 67,218	\$ 8,110	\$ 2,352	\$ 159,628	
Comprehensive income:							
Net income		-	1,714	-	328	2,042	\$ 2,042
Currency translation adjustment		-	-	4,040	136	4,176	4,176
Comprehensive income							\$ 6,218
Non-cash equity based compensation		2,275	-	-	-	2,275	
Noncontrolling interest distributions		-	-	-	(815)	(815)	
Amounts from exercise of stock options	26,335	56	-	-	-	56	
Balance, December 31, 2009	14,509,957	\$ 84,279	\$ 68,932	\$ 12,150	\$ 2,001	\$ 167,362	

See accompanying notes to condensed consolidated financial statements.



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

(Amounts in thousands)	Nine Months Ended December 31,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,042	\$ 8,726
Less: Loss from discontinued operations	(142)	-
Income from continuing operations	2,184	8,726
Adjustments to reconcile net income (loss) to net cash provided by operating activities from continuing operations:		
Depreciation and amortization	10,835	9,588
Loss on sale of assets	64	117
Non-cash equity based compensation	2,275	2,251
Deferred income taxes	619	(1,532)
Net change in operating assets and liabilities:		
Accounts receivable, trade	834	13,216
Inventories	3,768	(7,402)
Prepaid expenses, other current assets and other receivables	(204)	(26)
Other assets	1,126	783
Accounts payable	193	(7,599)
Accrued expenses, accrued compensation, other current and other liabilities	3,027	(1,654)
Income taxes payable and income taxes receivable	(2,836)	1,166
Net cash provided by operating activities from continuing operations	21,885	17,634
Cash flows from investing activities from continuing operations:		
Purchases of property and equipment	(3,683)	(11,334)
Proceeds from sale of assets	74	6
Acquisition of business, net of cash acquired	(100)	-
Net cash used in investing activities from continuing operations	(3,709)	(11,328)
Cash flows from financing activities from continuing operations:		
Repayments of long-term debt	(5,801)	(2,439)
Borrowings of short-term debt, revolver and notes payable	-	2,500
Repayments of short-term debt, revolver, capital leases and notes payable	(8,549)	(4,487)
Payment of deferred financing costs	(832)	-
Noncontrolling interest distributions	(815)	-
Proceeds from exercise of options and employee stock purchase plan	56	276
Net cash used in financing activities from continuing operations	(15,941)	(4,150)
Net cash provided by investing activities of discontinued operations	141	540
Net cash provided by discontinued operations	141	540
Net change in cash and cash equivalents	2,376	2,696
Effect of exchange rate changes on cash	444	(1,064)
Cash, beginning of year	23,483	21,565
Cash, end of period	\$ 26,303	\$ 23,197

Supplemental Cash Flow Information:

Cash paid or received during the period for:

Interest paid	\$	2,938	\$	2,119
Income taxes paid		3,821		1,715
Income taxes refunded		2,384		-

See accompanying notes to condensed consolidated financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2009 AND 2008  
(UNAUDITED)

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION:

Interim Financial Statements: The information presented as of December 31, 2009 and for the three and nine month periods ended December 31, 2009 and 2008 is unaudited, and reflects all adjustments (consisting only of normal recurring adjustments) which Measurement Specialties, Inc. (the "Company" or "MEAS") considers necessary for the fair presentation of the Company's financial position as of December 31, 2009, the results of its operations for the three and nine month periods ended December 31, 2009 and 2008, and cash flows for the nine month periods ended December 31, 2009 and 2008. The Company's March 31, 2009 balance sheet information was derived from the audited consolidated financial statements for the year ended March 31, 2009, which are included as part of the Company's Annual Report on Form 10-K.

The condensed consolidated financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and the instructions to Form 10-Q and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2009, which are included as part of the Company's Annual Report on Form 10-K.

The Company has evaluated subsequent events for potential recognition and/or disclosure through February 3, 2010, the date the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q were issued.

Description of Business: The Company is a leader in the design, development and manufacture of sensors and sensor-based systems for original equipment manufacturers and end users, based on a broad portfolio of proprietary technology. The Company is a multi-national corporation with twelve primary manufacturing facilities strategically located in the United States, China, France, Ireland, Germany and Switzerland, enabling the Company to produce and market world-wide a broad range of sensors that use advanced technologies to measure precise ranges of physical characteristics. These sensors are used for automotive, medical, consumer, military/aerospace, and industrial applications. The Company's sensor products include pressure sensors and transducers, linear/rotary position sensors, piezoelectric polymer film sensors, custom microstructures, load cells, accelerometers, optical sensors, humidity and temperature sensors. The Company's advanced technologies include piezo-resistive silicon sensors, application-specific integrated circuits, micro-electromechanical systems ("MEMS"), piezoelectric polymers, foil strain gauges, force balance systems, fluid capacitive devices, linear and rotational variable differential transformers, electromagnetic displacement sensors, hygroscopic capacitive sensors, ultrasonic sensors, optical sensors, negative thermal coefficient ("NTC") ceramic sensors and mechanical resonators.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

As part of the transition to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("AS Codification"), plain English references to the corresponding accounting policies are provided, rather than specific numeric AS Codification references. The AS Codification identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental

entities that are presented in conformity with U.S. GAAP. The AS Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. There was no impact on our financial position, results of operations or cash flows upon the adoption of the AS Codification.

**Principles of Consolidation:** The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and its joint venture in Japan. All significant intercompany balances and transactions have been eliminated in consolidation.

In accordance with accounting principles for consolidation of entities whose equity holders do not possess the characteristics of a controlling financial interest or whose equity investment at risk is not considered sufficient to finance its activities without additional subordinated financial support for which the Company is the primary beneficiary, commonly referred to as variable interest entities or "VIEs", the Company consolidates its joint venture in Japan, its one VIE for which the Company is the primary beneficiary. With the purchase of YSI Temperature in April 2006, the Company acquired a 50 percent ownership interest in Nikisso-THERM ("NT"), a joint venture in Japan. This joint venture is included in the condensed consolidated financial statements of the Company for the periods ended December 31, 2009 and 2008, and at December 31, 2009 and March 31, 2009. Noncontrolling interests recorded in the condensed consolidated financial statements represent the ownership interest in NT not owned by the Company. The presentation of certain prior year information for minority interest in the condensed consolidated statements of operations, condensed consolidated balance sheets, condensed consolidated statements of shareholders' equity and condensed consolidated statements of cash flows have been reclassified to noncontrolling interests.

In accordance with the disclosure requirements of accounting policies for VIEs of public reporting companies, the nature of the Company's involvement with NT is not as a sponsor of a qualifying special purpose entity (QSPE) for the transfer of financial assets. NT is a self-sustaining manufacturer and distributor of temperature based sensor systems in Asian markets. The assets of NT are for the operations of the joint venture and the VIE relationship does not expose the Company to risks not considered normal business risks. The carrying amount and classification of the VIE's assets and liabilities included in the condensed consolidated statement of financial position are as follows at December 31, 2009 and March 31, 2009:

	December 31, 2009	March 31, 2009
<b>Assets:</b>		
Cash	\$ 1,304	\$ 1,206
Accounts receivable	1,342	1,176
Inventory	712	660
Other assets	426	456
Due from joint venture partner	776	1,824
Property and equipment	159	203
	4,719	5,525
<b>Liabilities:</b>		
Accounts payable	313	194
Accrued expenses	97	195
Income tax payable	184	276
Other liabilities	123	156
	\$ 717	\$ 821

**Reclassifications:** The presentation of certain prior year information in the condensed consolidated statement of cash flows for adjustments to reconcile net income to net cash provided by operating activities previously presented for the provision for doubtful accounts, provision for inventory reserve and provision for warranty have been reclassified to trade accounts receivable, inventories and accrued expenses, respectively, to conform with current year presentation.

**Use of Estimates:** The preparation of the condensed consolidated financial statements, in accordance with U.S. GAAP, requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, carrying amount and analysis of recoverability of property, plant and equipment, acquired intangibles, goodwill, deferred tax assets, valuation allowances for receivables, inventories, income tax uncertainties and other contingencies, and stock based compensation. Actual results could differ from those estimates.

**Recently Adopted Accounting Standards:** In December 2007, the FASB issued new accounting principles for acquisition accounting and noncontrolling interests, which require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at "full fair value" and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. These principles are effective April 1, 2009. The Company will apply the new acquisition accounting principles to business combinations occurring after March 31, 2009. The accounting for contingent consideration under the new acquisition accounting principles requires the measurement of contingencies at the fair value on the acquisition date. Contingent consideration can be either a liability or equity based. Subsequent changes to the fair value of the contingent consideration (liability) are recognized in earnings, not to goodwill, and equity classified contingent consideration amounts are not re-measured. The

adoption of the new accounting principles for acquisition accounting and noncontrolling interests did not have a material impact on the Company's results of operations and financial position.

In February 2008, the FASB issued new accounting standards for leases, which removed fair value measurement requirements for certain leasing transactions. In February 2008, the FASB also delayed the effective date for fair value measurements for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 2008. The adoption of the fair value measurements requirements for non-financial assets and liabilities did not have any impact on the Company's results of operations and financial position.

In April 2008, the FASB issued new guidelines for determining the useful life of intangible assets, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of the new guidelines for determining the useful life of intangible assets is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The new guidelines for determining the useful life of intangible assets shall be applied prospectively to all intangible assets acquired after March 31, 2009. The adoption of these guidelines did not have any impact on the Company's results of operations and financial condition.

Recently Issued Accounting Pronouncements: New disclosure requirements for employer postretirement benefit plan assets were issued on December 30, 2008 and are effective for fiscal years ending after December 15, 2009. The new disclosure requirements for employer postretirement benefit plans clarify an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The new requirements also prescribe expanded disclosures regarding investment allocation decisions, categories of plan assets, inputs, and valuation techniques used to measure fair value, the effect of Level 3 inputs on changes in plan assets and significant concentrations of risk. The Company will adopt the new postretirement plan disclosure requirements at March 31, 2010 and does not expect the adoption of the new disclosure requirements to have a material impact on the Company's results of operations and financial condition.

In June 2009, the FASB issued new accounting principles for VIEs which, among other things, established a qualitative approach for the determination of the primary beneficiary of a VIE. An enterprise is required to consolidate a VIE if it has both the power to direct activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb the losses of the VIE or the right to receive the benefits of the VIE. These principles improve financial reporting by enterprises involved with VIEs and address constituent concerns about the application of certain key provisions, including those in which the accounting and disclosures an enterprise's involvement in a variable interest entity, as well as address significant diversity in practice in the approaches and methodology used to calculate a VIE's variability. These new accounting principles related to VIEs are effective as of the beginning of the annual reporting period that begins after November 15, 2009, for interim periods within that annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company is evaluating the potential impact of the adoption of the new accounting principles related to VIEs on the Company's results of operations and financial condition.

### 3. NON-CASH EQUITY BASED COMPENSATION AND PER SHARE INFORMATION

Non-cash equity-based compensation expense for the three months ended December 31, 2009 and 2008 was \$865 and \$727, respectively, and for the nine months ended December 31, 2009 and 2008 was \$2,275 and \$2,251, respectively. The estimated fair value of stock options granted during the three and nine months ended December 31, 2009 approximated \$14 and \$2,488, respectively, net of expected forfeitures and is being recognized over their respective vesting periods. During the three and nine months ended December 31, 2009, the Company recognized \$10 and \$748, respectively, of expense related to these options.

The Company has four equity-based compensation plans for which options are currently outstanding. These plans are administered by the compensation committee of the Board of Directors, which approves grants to individuals eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions, performance measures, and other provisions of the award. The Chief Executive Officer can also grant individual awards up to certain limits as approved by the compensation committee. Awards are generally granted based on the individual's performance. Terms for stock option awards include pricing based on the closing price of the Company's common stock on the award date, and generally vest over three to five year requisite service periods using a graded vesting schedule or subject to performance targets established by the compensation committee. Shares issued under stock option plans are newly issued common stock. Readers should refer to Note 14 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009 for additional information related to the four equity based compensation plans under which options are currently outstanding.

During the three and nine months ended December 31, 2009, the Company granted a total of 3,000 and 714,218 stock options from the 2008 Equity Incentive Plan (the "2008 Plan"). The 2008 Plan permits the granting of incentive stock options, non-qualified stock options, and restricted stock units. Subject to certain adjustments, the maximum number of shares of common stock that may be issued under the 2008 Plan in connection with awards is 1,400,000 shares. With the adoption of the 2008 Plan, no further options may be granted under the Company's other option

plans.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Dividend yield	-	-	-	-
Expected volatility	64.0%	48.9%	62.9%	47.6%
Risk free interest rate	1.9%	1.5%	2.1%	1.6%
Expected term after vesting (in years)	2.0	2.0	2.0	2.0
Weighted-average grant-date fair value	\$ 4.58	\$ 1.98	\$ 3.48	\$ 1.96

The assumptions above are based on multiple factors, including historical exercise patterns of employees with respect to exercise and post-vesting employment termination behaviors, expected future exercise patterns for these employees and the historical volatility of our stock price and the stock prices of companies in our peer group (Standard Industrial Classification or "SIC" Code 3823). The expected term of options granted is derived using company-specific, historical exercise information and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.



During the nine months ended December 31, 2009, 13,275 stock options were exercised yielding \$21 in cash proceeds and no tax benefit recognized as additional paid-in capital. At December 31, 2009, there was \$2,815 of unrecognized compensation cost adjusted for estimated forfeitures related to share-based payments, which is expected to be recognized over a weighted-average period of approximately 1.29 years.

Per Share Information: Basic and diluted per share calculations are based on net income (loss) attributable to MEAS. Basic per share information is computed based on the weighted average common shares outstanding during each period. Diluted per share information additionally considers the shares that may be issued upon exercise or conversion of stock options, less the shares that may be repurchased with the funds received from their exercise. Outstanding awards relating to approximately 2,533,537 and 2,327,725 weighted shares were excluded from the calculation for the three and nine months ended December 31, 2009, respectively, and approximately 1,940,376 and 1,860,916 weighted shares were excluded from the calculation for the three and nine months ended December 31, 2008, respectively, as the impact of including such awards in the calculation of diluted earnings per share would have had an anti-dilutive effect.

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

	Net income (Loss) (Numerator)	Weighted Average Shares in thousands (Denominator)	Per-Share Amount
<b>Three Months Ended December 31, 2009</b>			
Basic per share information	\$ 3,248	14,504	\$ 0.22
Effect of dilutive securities	-	182	-
Diluted per-share information	\$ 3,248	14,686	\$ 0.22
<b>Three Months Ended December 31, 2008</b>			
Basic per share information	\$ 876	14,464	\$ 0.06
Effect of dilutive securities	-	72	-
Diluted per-share information	\$ 876	14,536	\$ 0.06
<b>Nine Months Ended December 31, 2009</b>			
Basic per share information	\$ 1,714	14,492	\$ 0.12
Effect of dilutive securities	-	137	-
Diluted per-share information	\$ 1,714	14,629	\$ 0.12
<b>Nine Months Ended December 31, 2008</b>			
Basic per share information	\$ 8,450	14,461	\$ 0.58
Effect of dilutive securities	-	84	-
Diluted per-share information	\$ 8,450	14,545	\$ 0.58

#### 4. INVENTORIES

Inventories and inventory reserves for slow-moving, obsolete and lower of cost or market exposures at December 31, 2009 and March 31, 2009 are summarized as follows:

	December 31, 2009	March 31, 2009
Raw Materials	\$ 24,642	\$ 22,270
Work-in-Process	7,174	4,622

Finished Goods	14,908	21,981
	46,724	48,873
Inventory Reserves	(3,681)	(3,489)
	\$ 43,043	\$ 45,384

#### 5. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2009	March 31, 2009
Production equipment & tooling	\$ 49,680	\$ 45,894
Building and leasehold improvements	24,335	24,301
Furniture and equipment	14,228	13,663
Construction-in-progress	1,083	1,122
<b>Total</b>	<b>89,326</b>	<b>84,980</b>
Less: accumulated depreciation and amortization	(43,975)	(38,105)
	<b>\$ 45,351</b>	<b>\$ 46,875</b>

Total depreciation was \$2,165 and \$1,756 for the three months ended December 31, 2009 and 2008, respectively. Total depreciation was \$6,221 and \$5,610 for the nine months ended December 31, 2009 and 2008, respectively. Property and equipment included \$448 and \$1,047 in capital leases at December 31, 2009 and March 31, 2009, respectively.

## 6. ACQUISITIONS AND ACQUIRED INTANGIBLES

Acquisitions: As part of its growth strategy, the Company has consummated fourteen acquisitions since June 2004 with total purchase price exceeding \$167,000, of which two acquisitions were made during each fiscal year ending March 31, 2009 and 2008. All of these acquisitions have been accounted for as purchases and have resulted in the recognition of goodwill in the Company's condensed consolidated financial statements. This goodwill arises because the purchase prices for these businesses reflect a number of factors, including the future earnings and cash flow potential of these businesses, and other factors at which similar businesses have been purchased by other acquirers, the competitive nature of the process by which the Company acquired the business, and the complementary strategic fit and resulting synergies these businesses bring to existing operations.

Goodwill balances presented in the condensed consolidated balance sheets of foreign acquisitions are translated at the exchange rate in effect at each balance sheet date; however, opening balance sheets used to calculate goodwill and acquired intangible assets are based on purchase date exchange rates, except for earn-out payments, which are recorded at the exchange rates in effect on the date the earn-out is accrued. The following table shows the roll-forward of goodwill reflected in the financial statements resulting from the Company's acquisition activities for the nine months ended December 31, 2009:

Balance March 31, 2009	\$ 99,176
Attributable to 2009 acquisitions	(5)
Effect of foreign currency translation	971
Balance December 31, 2009	\$ 100,142

The following briefly describes the Company's acquisitions from the beginning of fiscal 2008 forward.

Visyx: Effective November 20, 2007, the Company acquired certain assets of Visyx Technologies, Inc. (Visyx") based in Sunnyvale, California for \$1,624 (\$1,400 at close, \$100 held-back to cover certain expenses, and \$124 in acquisition costs). The Seller has the potential to receive up to an additional \$2,000 in the form of a contingent payment based on successful commercialization of specified sensors prior to December 31, 2011, and an additional \$9,000 earn-out based on a percentage of sales through calendar year 2011. If these earn-out contingencies are resolved and meet established conditions, these amounts will be recorded as an additional element of the cost of the acquisition. The resolution of these contingencies is not determinable at this time, and accordingly, the Company's purchase price allocation for Visyx is subject to earn-out payments. Visyx has a range of sensors that measure fluid

properties, including density, viscosity and dielectric constant, for use in heavy truck/off road engines and transmissions, compressors/turbines, refrigeration and air conditioning. The Company's final purchase price allocation, except for earn-out contingencies, related to the Visyx acquisition is as follows:

Assets:	
Accounts receivable	\$ 12
Inventory	10
Acquired intangible assets	1,528
Goodwill	74
Total Purchase Price	\$ 1,624

Intersema: Effective December 28, 2007, the Company completed the acquisition of all of the capital stock of Intersema Microsystems S.A. ("Intersema"), a sensor company headquartered in Bevaix, Switzerland, for \$40,160 (\$31,249 in cash at closing, \$8,708 in unsecured Promissory Notes ("Intersema Notes"), and \$203 in acquisition costs). The Intersema Notes bear interest of 4.5% per annum and are payable in four equal annual installments beginning December 28, 2008. The selling shareholders had the potential to receive up to an additional 20,000 Swiss francs or approximately \$18,946 (based on December 31, 2008 exchange rates) tied to calendar 2009 earnings growth objectives. The established conditions of the contingencies were not met, and no amounts were recorded as an additional element of the cost of the acquisition. Intersema is a designer and manufacturer of pressure sensors and modules with low pressure, harsh media and ultra-small package configurations for use in barometric and sub-sea depth measurement markets. The transaction was financed with borrowings under the Company's Amended Credit Facility (See Note 8). The Company's final purchase price allocation related to the Intersema acquisition is as follows:

<b>Assets:</b>	
Cash	\$ 10,542
Accounts receivable	1,162
Inventory	3,770
Other assets	619
Property and equipment	1,811
Acquired intangible assets	13,773
Goodwill	13,851
	45,528

<b>Liabilities:</b>	
Accounts payable	832
Accrued expenses	1,119
Deferred income taxes	3,417
	5,368
Total Purchase Price	\$ 40,160

Atexis: On January 30, 2009, the Company consummated the acquisition of all of the capital stock of RIT SARL (“Atexis”), a sensor company headquartered in Fontenay, France, for €4,096. The total purchase price in U.S. dollars based on the January 30, 2009 exchange rate was approximately \$5,359 (\$5,152 in cash at close and \$207 in acquisition costs). The selling shareholders have the potential to receive up to an additional €2,000 tied to sales growth objectives through calendar 2010, and if the contingencies are resolved and established conditions are met, these amounts will be recorded as an additional element of the cost of the acquisition. The resolution of these contingencies is not determinable at this time, and accordingly, the Company’s purchase price allocation for Atexis is subject to earn-out payments. Atexis designs and manufactures temperature sensors and probes utilizing NTC, Platinum (Pt) and thermo-couples technologies through wholly-owned subsidiaries in France and China. The transaction was partially financed with borrowings under the Company’s Amended Credit Facility (See Note 8). The Company’s final purchase price allocation, except for earn-out contingencies, related to the Atexis acquisition is as follows:

<b>Assets:</b>	
Cash	\$ 110
Accounts receivable	2,268
Inventory	2,613
Other assets	270
Property and equipment	1,532
Acquired intangible assets	1,610
Goodwill	1,524
	9,927

<b>Liabilities:</b>	
Accounts payable	1,384
Accrued expenses and other liabilities	2,292
Deferred income taxes	892
	4,568
Total Purchase Price	\$ 5,359

FGP: On January 30, 2009, the Company consummated the acquisition of all of the capital stock of FGP Instrumentation, GS Sensors and ALS (collectively “FGP”), sensor companies located in Les Clayes-sous-Bois and Druex, France for €6,112. The total purchase price in U.S. dollars based on the January 30, 2009 exchange rate was

approximately \$7,998 (\$4,711 in cash at close, discharge of certain liabilities totaling \$3,059 and \$228 in acquisition costs). The selling shareholders had the potential to receive up to an additional €1,400 tied to sales growth objectives. The established conditions of the contingencies were not met, and no amounts were recorded as an additional element of the cost of the acquisition. FGP is a designer and manufacturer of custom force, pressure and vibration sensors for aerospace and test and measurement markets. The transaction was partially financed with borrowings under the Company's Amended Credit Facility (See Note 8). The Company's final purchase price allocation related to the FGP acquisition is as follows:

Assets:	
Cash	\$ 980
Accounts receivable	1,678
Inventory	1,807
Other assets	85
Property and equipment	789
Deferred income taxes	351
Acquired intangible assets	1,900
Goodwill	3,723
	11,313
Liabilities:	
Accounts payable	1,100
Accrued expenses and other liabilities	1,472
Deferred income taxes	743
	3,315
Total Purchase Price	\$ 7,998

Acquired Intangibles: In connection with all acquisitions, the Company acquired certain identifiable intangible assets, including customer relationships, proprietary technology, patents, trade-names, order backlogs and covenants-not-to-compete. The gross amounts and accumulated amortization, along with the weighted-average amortizable lives, are as follows:

	Weighted-Average Life	December 31, 2009			March 31, 2009			
		in years	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Amortizable intangible assets:								
Customer relationships	9	\$ 29,381	\$ (11,746)	\$ 17,635	\$ 27,627	\$ (8,794)	\$ 18,833	
Patents	16	4,244	(1,251)	2,993	3,984	(895)	3,089	
Tradenames	3	2,137	(1,959)	178	2,000	(1,478)	522	
Backlog	1	2,884	(2,884)	-	2,732	(2,556)	176	
Covenants-not-to-compete	3	1,018	(970)	48	1,008	(932)	76	
Proprietary technology	13	6,176	(1,403)	4,773	5,763	(981)	4,782	
		\$ 45,840	\$ (20,213)	\$ 25,627	\$ 43,114	\$ (15,636)	\$ 27,478	

Amortization expense for acquired intangible assets for the three months ended December 31, 2009 and 2008 was \$1,465 and \$1,255, respectively. Amortization expense for the nine months ended December 31, 2009 and 2008 was \$4,614 and \$3,978, respectively. Estimated annual amortization expense is as follows:

Year	Amortization Expense
2010	\$ 4,422
2011	3,879
2012	3,385
2013	2,436
2014	2,231

Thereafter	9,274
	\$ 25,627

Pro forma Financial Data: The following represents the Company's pro forma consolidated net income attributable to MEAS for the three and nine months ended December 31, 2008, based on final purchase accounting information assuming the Atexis and FGP acquisitions occurred as of April 1, 2008, giving effect to purchase accounting adjustments. The pro forma data is for informational purposes only and may not necessarily reflect results of operations had all the acquired companies been operated as part of the Company since April 1, 2008.

	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2008
Net sales	\$ 48,829	\$ 178,205
Net income attributable to MEAS	\$ 1,106	\$ 8,643
Net income attributable to MEAS per common share:		
Basic	\$ 0.08	\$ 0.60
Diluted	\$ 0.08	\$ 0.59



## 7. FINANCIAL INSTRUMENTS:

### Fair Value of Financial Instruments

Effective April 1, 2009, the Company adopted a new accounting standard related to fair values, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset and liability. As a basis for considering such assumptions, the principles establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and

Level 3 - Unobservable inputs in which there is little or no market data which require the reporting entity to develop its own assumptions.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

For cash and cash equivalents, accounts receivable, notes receivable and other receivables, prepaid and other assets (current and long-term), accounts payable, and accrued expenses and other liabilities (non-derivatives, current and long-term), the carrying amounts approximate fair value because of the short maturity of these instruments. Foreign currency contracts are recorded at fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels. The fair value of the Company's cash and cash equivalents was determined using Level 1 measurements in the fair value hierarchy. The fair value of the Company's foreign currency contracts was based on Level 2 measurements in the fair value hierarchy. The fair value of the foreign currency contracts is based on forward exchange rates relative to current exchange rates which were obtained from independent financial institutions reflecting market quotes.

For promissory notes payable, deferred acquisition payments and capital lease obligation, the fair value is determined as the present value of expected future cash flows discounted at the current interest rate, which approximates rates currently offered by lending institutions for loans of similar terms to companies with comparable credit risk. These are considered Level 2 inputs.

For long-term debt and the revolver, the fair value of the Company's long-term debt is estimated by discounting future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's lenders. These are considered Level 2 inputs. The fair value of long-term debt and the revolver approximates carrying value due to the variable interest nature of the debt.

### Derivative Instruments and Risk Management

The Company is exposed to market risks from changes in interest rates, commodities, credit and foreign currency exchange rates, which could impact its results of operations and financial condition. The Company attempts to address its exposure to these risks through its normal operating and financing activities. In addition, the Company's relatively broad-based business activities help to reduce the impact that volatility in any particular area or related areas may have on its operating results as a whole.

**Interest Rate Risk:** Under our term and revolving credit facilities, we are exposed to a certain level of interest rate risk. Interest on the principal amount of our borrowings under our revolving credit facility and term loan accrue at a rate based on either a 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. We do not currently hedge this interest rate exposure.

**Foreign Currency Exchange Rate Risk:** Foreign currency exchange rate risk arises from the Company's investments in subsidiaries owned and operated in foreign countries, as well as from transactions with customers in countries outside the U.S. and transactions denominated in currencies other than the applicable functional currency.

The effect of a change in currency exchange rates on the Company's net investment in international subsidiaries is reflected in the "accumulated other comprehensive income" component of shareholders' equity. The Company does not hedge the Company's net investment in subsidiaries owned and operated in countries outside the U.S.

Although the Company has a U.S. dollar functional currency for reporting purposes, it has manufacturing sites throughout the world and a large portion of its sales are generated in foreign currencies. A substantial portion of our revenues are priced in U.S. dollars, and most of our costs and expenses are priced in U.S. dollars, with the remaining priced in Chinese renminbi, Euros, Swiss francs and Japanese yen. Sales by subsidiaries operating outside of the United States are translated into U.S. dollars using exchange rates effective during the respective period. As a result, the Company is exposed to movements in the exchange rates of various currencies against the U.S. dollar.

Accordingly, the competitiveness of our products relative to products produced locally (in foreign markets) may be affected by the performance of the U.S. dollar compared with that of our foreign customers' currencies. Refer to Note 11, Segment Information, for details concerning annual net sales invoiced from our facilities within the U.S. and outside of the U.S., as well as long-lived assets. Therefore, both positive and negative movements in currency exchange rates against the U.S. dollar will continue to affect the reported amount of sales, profit, and assets and liabilities in the Company's condensed consolidated financial statements.

The value of the renminbi ("RMB") relative to the U.S. dollar was stable during the first nine months of fiscal 2010, but appreciated 2.5% and 9.0% in fiscal years 2009 and 2008, respectively. The Chinese government no longer pegs the RMB to the U.S. dollar, but established a currency policy letting the renminbi trade in a narrow band against a basket of currencies. The Company has more expenses in RMB than sales (i.e., short RMB position), and as such, if the U.S. dollar weakens relative to the RMB, our operating profits will decrease. We continue to consider various alternatives to hedge this exposure, and we are attempting to manage this exposure through, among other things, forward purchase contracts, pricing and monitoring balance sheet exposures for payables and receivables.

Fluctuations in the value of the Hong Kong dollar have not been significant since October 17, 1983, when the Hong Kong government tied the value of the Hong Kong dollar to that of the U.S. dollar. However, there can be no assurance that the value of the Hong Kong dollar will continue to be tied to that of the U.S. dollar.

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

The Company has a number of foreign currency exchange contracts in Europe in an attempt to hedge the Company's exposure to the Euro. The Euro/U.S. dollar currency contracts have notional amounts totaling \$1,380 with exercise dates through June 2010 at an average exchange rate of \$1.47 (Euro to U.S. dollar conversion rate). Since these derivatives are not designated as hedges for accounting purposes, changes in their fair value are recorded in results of operations, not in other comprehensive income.

To manage our exposure to potential foreign currency transaction and translation risks, we may purchase additional foreign currency exchange forward contracts, currency options, or other derivative instruments, provided such instruments may be obtained at suitable prices.

Fair values of derivative instruments not designated as hedging instruments:

	December 31, 2009	March 31, 2009	Balance sheet location
<b>Financial position:</b>			
Foreign currency exchange contracts - Euro/US dollar	\$ 38	\$ 105	Other assets
Foreign currency exchange contracts - RMB	\$ -	\$ (143)	Other liabilities

Foreign currency exchange contracts - Japanese yen	\$	-	\$	115	Other assets
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The effect of derivative instruments not designated as hedging instruments on the statements of operations and cash flows for the three and nine months ended December 31, 2009 and 2008 is as follows:

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	Three Months Ended December 31,		Nine Months Ended December 31,		Location of gain or loss
	2009	2008	2009	2008	
<b>Results of operations:</b>					
Foreign currency exchange contracts - Euro	\$ (87)	\$ (167)	\$ (24)	\$ (111)	Foreign currency exchange (gain) loss
Foreign currency exchange contracts - RMB	-	121	18	195	Foreign currency exchange (gain) loss
Foreign currency exchange contracts - Japanese yen	76	-	(232)	-	Foreign currency exchange (gain) loss
<b>Total</b>	<b>\$ (11)</b>	<b>\$ (46)</b>	<b>\$ (238)</b>	<b>\$ 84</b>	

	Nine Months Ended December 31,		Location of gain or loss
	2009	2008	
<b>Cash flows from operating activities: Source (Use) -</b>			
Foreign currency exchange contracts - Euro	\$ 224	\$ (55)	Prepaid expenses, other current assets and other receivables
Foreign currency exchange contracts - RMB	(125)	(726)	Accrued expenses, accrued compensation, other current and other liabilities
Foreign currency exchange contracts - Japanese yen	107	-	Prepaid expenses, other current assets and other receivables
<b>Total</b>	<b>\$ 206</b>	<b>\$ (781)</b>	

8. LONG-TERM DEBT:

LONG-TERM DEBT

To support the financing of acquisitions, effective April 1, 2006, the Company entered into an Amended and Restated Credit Agreement (“Amended and Restated Credit Facility”) with General Electric Capital Corporation (“GE”) as agent which, among other things, increased the Company’s existing credit facility from \$35,000 to \$75,000, consisting of a \$55,000 revolving credit facility and a \$20,000 term loan, and lowered the applicable London Inter-bank Offered Rate (“LIBOR”) or Index Margin from 4.50% and 2.75%, respectively, to LIBOR and Index Margins of 2.75% and 1.0%, respectively. To support the financing of the acquisition of Intersema (See Note 6), the Company entered into an Amended Credit Agreement (“Amended Credit Facility”) with four banks, with GE as agent, effective December 10, 2007 which, among other things, increased the Company’s existing revolving credit facility from \$55,000 to \$121,000 and lowered the applicable LIBOR or Index Margin from 2.75% and 1.0%, respectively, to LIBOR and Index Margins of 2.00% and 0.25%, respectively. Interest accrues on the principal amount of the borrowings at a rate based on either LIBOR plus a LIBOR margin, or at the election of the borrower, at an Index Rate (prime based rate) plus an Index Margin. The applicable margins may be adjusted quarterly based on a change in specified financial ratios. Borrowings under the credit facility are subject to certain financial covenants and restrictions on indebtedness, dividend payments, repurchase of Company common stock, financial guarantees, annual capital expenditures, and other related items. The borrowing availability of the revolving credit facility is not based on any borrowing base requirements, but borrowings are limited by certain financial covenants. The term loan portion of our credit facility was not changed

with the Amended Credit Facility. The term loan is payable in \$500 quarterly installments plus interest through March 1, 2011, with a final term payment and the revolver payable on April 3, 2011. The Company has provided a security interest in substantially all of the Company's U.S. based assets as collateral for the Amended Credit Facility.

On April 27, 2009, the Company entered into an amendment (the "Amendment") to the Amended Credit Facility whereby the Company proactively negotiated a reduction of its debt covenant requirements, as a result of the decline in our sales and profitability resulting from the impact of the global recession. The Amendment provides the Company with additional flexibility under its minimum earnings before interest, tax, depreciation and amortization ("EBITDA") covenant, total leverage ratio covenant, fixed charge ratio covenant and maximum capital expenditure covenant included in its senior credit facility. Under the terms of the Amendment, the principal amount available under the Company's revolver has been reduced from \$121,000 to \$90,000. The Amendment increased the interest rate by between 1.50% and 2.25%, increased the Index Margin and LIBOR Margin (which vary based on the Company's debt to EBITDA leverage ratio), and also increased the commitment fee on the unused balance to 0.5% per annum. As part of the Amendment, the Company paid \$832 in amendment fees, which were capitalized as deferred financing costs. Pursuant to the Amendment, the Company is prohibited from consummating any business acquisitions without lender approval during the covenant relief period, which ends March 31, 2010. The Company is presently in compliance with applicable financial covenants at December 31, 2009.

The Company's debt covenant requirements for December 31, 2009 and March 31, 2010 are as follows:

	Amended Financial Covenant Requirements	
	December 31, 2009	March 31, 2010
Minimum Adjusted Earnings Before Income Taxes, Stock Options, Depreciation, and Amortization ("Adjusted EBITDA")	\$ 19,100	\$ 24,750
Minimum Adjusted Fixed Charge Coverage Ratio for the last twelve months	1.15	1.20
Maximum Adjusted Capital Expenditures for the last twelve months	\$ 7,978	\$ 8,758
Maximum Adjusted Total Leverage Ratio	4.25	3.25

Adjusted EBITDA for covenant purposes is the Company's earnings before interest, income taxes, stock options, depreciation and amortization for the last twelve months, in addition to the last twelve months of Adjusted EBITDA for acquisitions and certain adjustments approved by our lender. Adjusted fixed charge coverage ratio is Adjusted EBITDA less adjusted capital expenditures divided by fixed charges. Fixed charges are the last twelve months of interest, taxes paid, and the last twelve months of payments of long-term debt, notes payable and capital leases. Adjusted capital expenditures represent purchases of plant, property and equipment during the last twelve months. Total leverage ratio is total debt less cash maintained in U.S. bank accounts which are subject to blocked account agreements with lenders divided by the last twelve months of Adjusted EBITDA. All of the aforementioned financial covenants are subject to various adjustments, many of which are detailed in the amended credit agreement and subsequent amendments to the credit agreement previously filed with the Securities Exchange Commission, as well as other adjustments approved by the lender. These adjustments include such items as excluding capital expenditures associated with the new China facility from adjusted capital expenditures, and adjustments to Adjusted EBITDA for certain items such as litigation settlement costs, severance costs and other items considered non-recurring in nature.

As of December 31, 2009, the Company utilized the LIBOR based rate for the term loan and for \$59,500 of the revolving credit facility under the Amended Credit Facility. The weighted average interest rate applicable to borrowings under the revolving credit facility was approximately 4.4% at December 31, 2009. As of December 31, 2009, the outstanding borrowings on the revolving credit facility, which is classified as long-term debt, were \$63,547, and the Company had an additional \$26,453 available under the revolving credit facility. The Company's borrowing capacity is limited by financial covenant ratios, including earnings ratios, and as such, our borrowing capacity is subject to change.

**China Credit Facility:** On November 3, 2009, the Company's subsidiary in China ("MEAS China") entered into a two year credit facility agreement (the "China Credit Facility") with China Merchants Bank Co. Ltd ("CMB"). The China Credit facility permits MEAS China to borrow up to RMB 68 million (approximately \$10 million). Specific covenants include customary limitations, compliance with laws and regulations, use of proceeds for operational purposes, and timely payment of interest and principal. MEAS China has pledged its Shenzhen facility to CMB as collateral. The interest rate will be based on the London Inter-bank Offered Rate ("LIBOR") plus a LIBOR spread, depending on the term of the loan when drawn. The purpose of the China Credit Facility is primarily to provide additional flexibility in funding operations of MEAS China. At December 31, 2009, there were no outstanding borrowings against the China Credit Facility and MEAS China could borrow approximately \$10 million.

Promissory Notes: In connection with the acquisition of Intersema, the Company issued 10,000 Swiss franc unsecured promissory notes (“Intersema Notes”). At December 31, 2009, the Intersema Notes totaled \$7,225, of which \$2,408 was classified as current. The Intersema Notes are payable in four equal annual installments on January 15, and bear an interest rate of 4.5% per year.

Long-Term Debt and Promissory Notes: Below is a summary of the long-term debt and promissory notes outstanding at December 31, 2009 and March 31, 2009:



	December 31, 2009	March 31, 2009
Prime or LIBOR plus 4.50% or 3.00% five-year term loan with a final installment due on April 3, 2011	\$ 8,500	\$ 14,000
Governmental loans from French agencies at no interest and payable based on R&D expenditures	508	517
Term credit facility with six banks at an interest rate of 4% payable through 2010	411	608
	9,419	15,125
Less current portion of long-term debt	2,471	2,356
	\$ 6,948	\$ 12,769
4.5% promissory note payable in four equal annual installments through January 15, 2012	\$ 7,225	\$ 6,528
Less current portion of promissory notes payable	2,408	2,176
	\$ 4,817	\$ 4,352

The annual principal payments of long-term debt, promissory notes and revolver as of December 31, 2009 are as follows:

Year ended December 31,	Term	Other	Subtotal	Notes	Revolver	Total
2010	\$ 2,000	\$ 471	\$ 2,471	\$ 2,408	\$ -	\$ 4,879
2011	6,500	267	6,767	2,408	63,547	72,722
2012	-	176	176	2,409	-	2,585
2013	-	5	5	-	-	5
Total	\$ 8,500	\$ 919	\$ 9,419	\$ 7,225	\$ 63,547	\$ 80,191

## 9. INCOME TAXES:

Income tax expense for interim reporting is based on an estimated overall effective tax rate (“ETR”) for the entire fiscal year, in addition to any discrete tax adjustments. The overall estimated effective tax rate is based on expectations and other estimates and involves complex domestic and foreign tax issues, which the Company monitors closely, but which are subject to change.

During the second quarter of fiscal 2010, the Company received notification of approval from the local Chinese tax authority for certain research and development (“R&D”) deductions. The income tax benefit of approximately \$266 associated with this R&D deduction was reflected as a favorable discrete tax adjustment during the quarter ended September 30, 2009.

During the second quarter of fiscal 2010, the Company received approval from the Swiss tax authority for a five year tax holiday effective in fiscal 2010. The Company’s tax rate in Switzerland was reduced to approximately 13% from 22%. In accordance with accounting principles for income taxes, the Company revalued the Company’s Swiss net deferred tax liabilities at the lower tax rate, resulting in a discrete non-cash income tax credit of \$650 recorded during the quarter ended September 30, 2009.

The Company has previously considered undistributed earnings of its foreign subsidiaries to be indefinitely reinvested outside of the U.S. and, accordingly, no U.S. deferred taxes had been recorded with respect to such earnings. However, as part of the Company's ongoing evaluation of various tax planning and repatriation strategies, the Company has elected to distribute \$7,500 of earnings for its Irish subsidiary, MEAS Ireland, and recorded a deferred tax liability and corresponding discrete income tax expense for \$1,100 during the quarter ended September 30, 2009.

10. COMMITMENTS AND CONTINGENCIES:

Litigation: There currently are no material pending legal proceedings. From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. The Company currently is not aware of any such legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's business, financial condition, or operating results.

Contingency: Exports of technology necessary to develop and manufacture certain of the Company's products are subject to U.S. export control laws and similar laws of other jurisdictions, and the Company may be subject to adverse regulatory consequences, including government oversight of facilities and export transactions, monetary penalties and other sanctions for violations of these laws. All exports of technology necessary to develop and manufacture the Company's products are subject to U.S. export control laws. In certain instances, these regulations may prohibit the Company from developing or manufacturing certain of its products for specific end applications outside the United States. In late May 2009, the Company became aware that certain of its piezo products when designed or modified for use with or incorporation into a defense article are subject the International Traffic in Arms Regulations ("ITAR") administered by the United States Department of State. Certain technical data relating to the design of the products may have been exported to China without authorization from the U.S. Department of State. As required by the ITAR, the Company conducted a thorough investigation into the matter. Based on the investigation, the Company filed in December 2009 a final voluntary disclosure with the U.S. Department of State relating to that matter, as well as to exports and re-exports of other ITAR-controlled technical data and/or products to Canada, India, Ireland, France, Germany, Italy, Israel, Japan, the Netherlands, South Korea, Spain and the United Kingdom. In the course of the investigation, the Company also became aware that certain of its products may have been exported from France without authorization from the relevant French authorities. The Company is currently investigating this matter thoroughly. In addition, the Company has taken steps to mitigate the impact of potential violations, and we are in the process of strengthening our export-related controls and procedures. The U.S. Department of State and other regulatory authorities encourage voluntary disclosures and generally afford parties mitigating credit under such circumstances. The Company nevertheless could be subject to potential regulatory consequences related to these possible violations ranging from a no-action letter, government oversight of facilities and export transactions, monetary penalties, and in extreme cases, debarment from government contracting, denial of export privileges and/or criminal penalties. It is not possible at this time to predict the precise timing or probable outcome of any potential regulatory consequences related to these possible violations.

Acquisition Earn-Outs and Contingent Payments: In connection with the Visyx acquisition, the Company has a contingent payment obligation of approximately \$2,000 based on the commercialization of certain sensors, and sales performance based earn-outs totaling \$9,000. In connection with the Atexis acquisition, the selling shareholders have the potential to receive up to an additional €2,000 tied to sales growth thresholds through calendar 2010. Contingent earn-out obligations for Intersema and FGP acquisitions based on calendar 2009 sales objectives were not met. No amounts related to the above acquisition earn-outs were accrued at December 31, 2009 since the contingencies were not determinable or achieved.

#### 11. SEGMENT INFORMATION:

The Company continues to have one reporting segment, a sensor business, under applicable accounting guidelines for segment reporting. For a description of the products and services of the sensor business, see Note 1.

Geographic information for revenues based on country from which invoiced, and long-lived assets based on country of location, which includes property, plant and equipment, but excludes intangible assets and goodwill, net of related depreciation and amortization follows:

	For the three months ended December 31,		For the nine months ended December 31,	
	2009	2008	2009	2008
<b>Net Sales:</b>				
United States	\$ 18,431	\$ 22,880	\$ 54,942	\$ 73,884
France	9,323	5,411	26,068	20,727
Germany	4,195	3,271	10,310	12,755

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Ireland	5,957	2,570	13,297	9,559
Switzerland	2,750	2,430	7,963	10,774
China	14,099	6,737	36,003	33,485
Total:	\$ 54,755	\$ 43,299	\$ 148,583	\$ 161,184

	December 31, 2009	March 31, 2009
Long Lived Assets:		
United States	\$ 6,908	\$ 7,754
France	8,354	7,860
Germany	2,442	2,253
Ireland	3,487	3,434
Switzerland	1,871	1,918
China	22,289	23,656
Total:	\$ 45,351	\$ 46,875

At December 31, 2009, approximately \$5,382 of the Company's cash is maintained in China, which is subject to certain restrictions on the transfer to another country because of currency control regulations.

## 12. DISCONTINUED OPERATIONS:

Effective December 1, 2005, the Company completed the sale to Fervent Group Limited ("FGL") of its Consumer Products segment, including its Cayman Island subsidiary, Measurement Limited. FGL is a company controlled by the owners of River Display Limited, the Company's long time partner and primary supplier of consumer products in Shenzhen, China. Under the terms of the agreement, the Company could have earned an additional \$5,000 if certain performance criteria (sales and margin targets) were met within the first year. The Company recorded \$2,156 of the earn-out in fiscal year 2007, because a portion of the earn-out targets were met. The related receivable was included in the condensed consolidated balance sheet as current portion of promissory note receivable and any cash collections were included as net cash provided by investing activities of discontinued operations in the condensed consolidated statement of cash flows. At March 31, 2009, the gross promissory notes receivable related to the earn-out of the Consumer business totaled \$283, representing the last payment which was due on December 31, 2008. The Company negotiated a settlement with FGL and collected all but approximately \$142 of the final payment. The uncollected portion of the note receivable was written off as an expense from discontinued operations during the nine months ended December 31, 2009.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Amounts in thousands, except per share data)

### INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Certain information included or incorporated by reference in this Quarterly Report, in press releases, written statements or other documents filed with or furnished to the Securities and Exchange Commission ("SEC"), or in our communications and discussions through webcasts, phone calls, conference calls and other presentations and meetings, may be deemed to be "forward-looking statements" within the meaning of the federal securities laws. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements regarding: projections of revenue, margins, expenses, tax provisions (or reversals of tax provisions), earnings or losses from operations, cash flows, synergies or other financial items; plans, strategies and objectives of management for future operations, including statements relating to potential acquisitions, executive compensation and purchase commitments; developments, performance or industry or market rankings relating to products or services; future economic conditions or performance; future compliance with debt covenants; the outcome of outstanding claims or legal proceedings; assumptions underlying any of the foregoing; and any other statements that address activities, events or developments that Measurement Specialties, Inc. ("MEAS", the "Company," "we," "us," "our") intends, expects, projects, believes or anticipates will or may occur in the future. Forward-looking statements may be characterized by terminology such as "forecast," "believe," "anticipate," "should," "would," "intend," "plan," "will," "expects," "estimates," "projects," "positioned," "strategy," and similar expressions. These statements are based on assumptions and assessments made by our management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

Any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, many of which are beyond our control. Actual results, developments and business decisions may differ materially from those envisaged by such forward-looking statements. These forward-looking statements speak only as of the date of the report, press release, statement, document, webcast or oral discussion in which they are made. 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, including risks associated with the current financial crisis and worldwide economic conditions and reduced demand for products that incorporate our products;
- Conditions in the credit markets, including our ability to raise additional funds or refinance our existing credit facility;
- 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, particularly in light of the current economic conditions and potential for suppliers to fail;
- Timely development, market acceptance and warranty performance of new products;
- Changes in product mix, costs and yields;
- Uncertainties related to doing business in Europe and China;

- Fluctuations in foreign currency exchange and interest rates;
- Legislative initiatives, including tax legislation and other changes in the Company's tax position;
- Legal proceedings;
- Compliance with export control laws and regulations;
- Compliance with debt covenants, including events beyond our control;
- Adverse developments in the automotive industry and other markets served by us; and
- The risk factors listed from time to time in the reports we file with the SEC, including those described under "Item 1A. Risk Factors" in our Annual Report on Form 10-K.

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 Quarterly Report on Form 10-Q, whether as a result of new information, future events, changes in assumptions or otherwise.

## OVERVIEW

Measurement Specialties, Inc. is a global leader in the design, development and manufacture of sensors and sensor-based systems for original equipment manufacturers and end users, based on a broad portfolio of proprietary technology. The Company is a multi-national corporation with twelve primary manufacturing facilities strategically located in the United States, China, France, Ireland, Germany and Switzerland, enabling the Company to produce and market world-wide a broad range of sensors that use advanced technologies to measure precise ranges of physical characteristics. These sensors are used for automotive, medical, consumer, military/aerospace, and industrial applications. The Company's sensor products include pressure sensors and transducers, linear/rotary position sensors, piezoelectric polymer film sensors, custom microstructures, load cells, accelerometers, optical sensors, humidity and temperature sensors. The Company's advanced technologies include piezo-resistive silicon sensors, application-specific integrated circuits, micro-electromechanical systems, piezoelectric polymers, foil strain gauges, force balance systems, fluid capacitive devices, linear and rotational variable differential transformers, electromagnetic displacement sensors, hygroscopic capacitive sensors, ultrasonic sensors, optical sensors, negative thermal coefficient ceramic sensors and mechanical resonators.

Effective December 1, 2005, we completed the sale of our Consumer business, including our Cayman Island subsidiary, Measurement Limited ("ML"), to Fervent Group Limited ("FGL"). FGL is a company controlled by the owners of River Display Limited, our long time partner and primary supplier of consumer products in Shenzhen, China. Accordingly, the related financial statements for the Consumer segment are reported as discontinued operations. All comparisons in Management's Discussion and Analysis for each of the periods ended December 31, 2009, and 2008, exclude the results of these discontinued operations except as otherwise noted.

## EXECUTIVE SUMMARY

The Company remains focused on creating long-term shareholder value. To accomplish this goal, we continue to execute measures we believe will result in higher sales performance in excess of the overall market and generation of positive earnings before interest, tax, depreciation and amortization ("EBITDA"). We have implemented aggressive actions not only to proactively address the economic recession, but to position the Company for future growth in sales and profitability, all of which we ultimately expect to translate to enhanced shareholder value.

We have taken decisive action, including aligning our labor workforce with the latest projected sale volumes. We have lowered costs through reductions in headcount, extended management salary reductions and eliminated the Company's management bonus program, as well as curtailed capital expenditures and implemented other cost control measures.

We have taken several additional critical steps to better position the Company not only to weather the recession but to capitalize on opportunities as the economy improves. To that end, we currently have one of the strongest product development pipelines in the history of the Company, which we expect to lay the foundation for future sales growth. Research and development will continue to play a key role in our efforts to maintain product innovations for new sales and to improve profitability. Consistent with our strategy to expand our product portfolio, global footprint and additional opportunities for cost synergies, we are integrating the acquisitions of Atexis and FGP (the "2009 Acquisitions").

## TRENDS

There are a number of trends that we expect to have material effects on the Company in the future, including global economic conditions with the resulting impact on sales, profitability, capital spending, changes in foreign currency exchange rates relative to the U.S. dollar, changes in debt levels and interest rates, and shifts in our overall effective tax rate.

Our visibility with respect to future sales remains very limited. Current market indicators are mixed, but there are signs of improvement. It is unclear whether the recent increase in sales and bookings is a result of the end of the recession and an overall sustainable increase in global economies (across most market verticals), or due to inventory replenishment as a result of aggressive destocking efforts taken by most companies during the early phases of the global recession. There continue to be indications that global demand will not quickly recover. Such lower demand levels are anticipated to continue to adversely impact the Company's sales and profitability. In particular, the Company's automotive and heavy truck, housing and industrial businesses are likely to be the most impacted with medical technologies less affected. In future periods, we expect the sensor market will continue to perform well relative to the overall economy as a result of the increase in sensor content in various products across most end markets in the U.S., Europe and Asia.

Current sales and profitability trends are encouraging. As detailed in the graph below, the Company posted this quarter the third consecutive quarter with higher net sales and the second consecutive quarter with higher Adjusted EBITDA on trailing quarter-to-quarter comparison.



Adjusted EBITDA is a non-GAAP financial measure that is not in accordance with, or an alternative to, measures prepared in accordance with GAAP. The Company believes certain financial measures which meet the definition of non-GAAP financial measures provide important supplemental information. The Company considers Adjusted EBITDA an important financial measure because it provides a financial measure of the quality of the Company's earnings from a cash flow perspective (prior to taking into account the effects of changes in working capital and purchases of property and equipment). Adjusted EBITDA is used by management in addition to and in conjunction with the results presented in accordance with GAAP. Additionally, quarterly Adjusted EBITDA provides the current run-rate for trending purposes rather than a trailing twelve month historical amount. The following table details quarterly net sales and also provides a Non-GAAP Reconciliation of quarterly Adjusted EBITDA to the applicable GAAP financial measures.

Quarter Ended	Net Sales	Quarterly Adjusted EBITDA*	Income (Loss) from Continuing Operations	Interest	Foreign Currency Exchange Loss (Gain)	Depreciation and Amortization	Income Taxes	Share-based Compensation	Other*
6/30/2008	\$ 58,998	\$ 10,133	\$ 3,855	\$ 706	\$ (63)	\$ 3,337	\$ 1,500	\$ 798	
9/30/2008	\$ 58,888	\$ 10,332	\$ 3,718	\$ 806	\$ 396	\$ 3,240	\$ 1,446	\$ 726	
12/31/2008	\$ 43,299	\$ 5,525	\$ 876	\$ 675	\$ 351	\$ 3,011	\$ (115)	\$ 727	
3/31/2009	\$ 42,758	\$ 3,530	\$ (3,170)	\$ 894	\$ 87	\$ 3,622	\$ 1,406	\$ 691	
6/30/2009	\$ 44,741	\$ 3,118	\$ (1,477)	\$ 1,168	\$ (536)	\$ 3,730	\$ (367)	\$ 600	
9/30/2009	\$ 49,087	\$ 5,767	\$ 68	\$ 1,018	\$ (437)	\$ 3,475	\$ 675	\$ 810	\$ 158
12/31/2009	\$ 54,755	\$ 8,872	\$ 3,264	\$ 905	\$ (64)	\$ 3,630	\$ (28)	\$ 865	\$ 300

\* - Adjusted EBITDA = Income from Continuing Operations before Interest, Foreign Currency Exchange Loss (Gain), Income Taxes, Share-based Compensation and Other. Other represents legal fees incurred related to the International Traffic in Arms Regulations ("ITAR").

Net sales for the quarter ended December 31, 2009 were higher than the quarter ended December 31, 2008, but the increase in sales was not large enough to return to prerecession level of sales generated during the first and second quarter last fiscal year. The continued increase in sales leads us to believe we may have seen the worst of the recession. We believe sales bottomed out during our fourth quarter of fiscal 2009, and the continued increases in bookings and backlog are encouraging trends, which if sustained, should translate to continued improvements in future sales performance. However, economic conditions continue to be challenging and there is uncertainty as to the strength of the economic recovery with, among other factors, high unemployment, tight credit markets and weaknesses in the housing and automotive markets. Accordingly, cost cutting and strengthening our business still remain primary objectives. Our cash generation and cost cutting initiatives are working, in spite of the continued impact of the economic recession.

Since we cannot provide definitive sales guidance, it is also challenging to provide guidance for gross margins. Within this context, we expect our gross margins during fiscal 2010 to range from approximately 37% to 42%, primarily reflecting the impact of a more stable product sales mix and assuming stability in the value of the Chinese renminbi ("RMB") relative to the U.S. dollar. Gross margins for certain periods could be outside this expected range due to certain factors within that particular quarter. Gross margins have trended down over the past several years, largely due to unfavorable product sales mix (both in terms of organic growth and acquired sales) and the impact of the increase in the value of the RMB relative to the U.S. dollar. However, our gross margins improved slightly in fiscal 2009 as compared to the prior year because of the decrease in the proportionate amount of lower grossing product mix, especially with sales to the automotive market. Our sales to the automotive market are usually characterized as higher volumes but carry lower gross margins than our average. Since the Company's China

operations have more costs than sales denominated in RMB (short RMB position), increases in the RMB relative to the U.S. dollar have resulted in margin erosion. However, over the past several months, the RMB has stabilized relative to the U.S. dollar, and this trend is expected to continue during fiscal 2010. Finally, as with all manufacturers, our gross margins are sensitive to the overall volume of business (i.e., economies of scale) in that certain costs are fixed, and since our overall level of business declined in fiscal 2009, especially during the second half, our gross margins and overall level of profits decreased accordingly. We expect continued downward pressures on our gross margins given our expectation that global demand will not quickly recover, which will result in additional unfavorable overhead absorption.

Total selling, general and administrative expense (“Total SG&A”) as a percent of net sales increased in fiscal 2009 as compared to prior years, reflecting the drop in sales and the increase in Total SG&A expenses due to SG&A expenses related to acquisitions. Historically, we have been successful in leveraging our SG&A expense, growing SG&A expense more slowly than our sales growth in fiscal 2009, but the global economic recession adversely impacted our SG&A leverage. As a percent of sales, Total SG&A for 2009 increased to 35.4%, as compared to 29.5% and 32.5% in fiscal years 2008 and 2007, respectively. We are expecting an overall decrease in SG&A due to various cost control measures, which are expected to be partially offset by continued investment in R&D costs for new programs that are not yet generating sales (such as our new fluid property sensor), higher costs associated with recent acquisitions, and certain costs directly related to the recession. These costs include such costs as amendment fees charged by our lenders and related professional fees, as discussed in further detail in Note 8 to the Condensed Consolidated Financial Statements filed in this quarterly report on Form 10-Q, as well as bad debt expenses due to uncollectible trade receivables. Additionally, as financial results improve, the Company may reinstate certain compensation programs which were cut as part of our efforts to proactively address the global economic recession, such as the 401(k) match, and the Company is planning to reinstate salaries to pre-reduction levels effective April 1, 2010. Since sales declined relative to the prior year, we are not expecting improvements in SG&A as a percentage of sales. The Company does not expect to make any acquisitions during fiscal 2010.

Amortization of acquired intangible assets and deferred financing costs increased dramatically from fiscal 2008 to fiscal 2009, associated with the acquisitions of Intersema and Visyx (the “2008 Acquisitions”) and the 2009 Acquisitions. Amortization is disproportionately loaded more in the initial years of the acquisition, and therefore amortization expense is higher in the quarters immediately following a transaction, and declines in later years based on how various intangible assets are valued and amortized. Even with the acquisitions of Atexis and FGP completed toward the end of fiscal 2009, amortization is expected to decrease in fiscal 2010 as compared to fiscal 2009.

In addition to the margin exposure as a result of the depreciation of the U.S. dollar due to our higher level of costs than sales denominated in RMB, the Company also has foreign currency exchange exposures related to balance sheet accounts. When foreign currency exchange rates fluctuate, there is a resulting revaluation of assets and liabilities denominated and accounted for in foreign currencies. Foreign currency exchange (“fx”) losses or gains due to the revaluation of local subsidiary balance sheet accounts with realized and unrealized fx transactions increased sharply in recent years, because of, among other factors, volatility of foreign currency exchange rates. For example, our Swiss company, Intersema, which uses the Swiss franc as its functional currency, holds cash denominated in foreign currencies (U.S. dollar and Euro). As the Swiss franc appreciates against the U.S. dollar and/or Euro, the cash balances held in those denominations are devalued when stated in terms of Swiss francs. These fx transaction gains and losses are reflected in our “Foreign Currency Exchange Gain or Loss.” Aside from cash, our foreign entities generally hold receivables in foreign currencies, as well as payables. In fiscal 2009 and 2008, we posted a net expense of \$771 and \$618, respectively, in realized and unrealized foreign exchange losses associated with the revaluation of foreign assets held by foreign entities. The Company’s operations outside of the U.S. have expanded over the years, including with the 2009 Acquisitions which increased our operations in France and China. We would expect to see continued fx losses or gains associated with volatility of foreign currency exchange rates.

On average the U.S. dollar weakened relative to the RMB, but appreciated against the Euro and Swiss franc during fiscal 2009. The Company has used foreign currency contracts to hedge some of this exposure. The Company has not hedged all of this exposure, but has accepted the exposure to exchange rate movements without using derivative financial instruments to manage this risk under hedge accounting. Therefore, both positive and negative movements in currency exchange rates relative to the U.S. dollar will continue to affect the reported amounts of sales, profits, and assets and liabilities in the Company’s consolidated financial statements.

Our overall effective tax rate will continue to fluctuate as a result of the allocation of earnings among various taxing jurisdictions with varying tax rates. We expect a decrease in our 2010 overall effective tax rate as compared to last

year, excluding discrete items. The decrease in the estimated overall effective tax rate mainly reflects the shift of taxable earnings to tax jurisdictions with lower tax rates and favorable tax deductions in China. The overall shift in profits and losses was a higher proportion of profits to those jurisdictions with lower tax rates and a higher proportion of losses to jurisdictions with higher tax rates. The overall estimated effective tax rate is based on expectations and other estimates and involves complex domestic and foreign tax issues, which the Company monitors closely, but are subject to change.

In January 2010, the Company received notification from the Chinese authorities that the Company's subsidiary in China, MEAS China, was on the 2009 Approved High Technology Enterprise list. In order to obtain final High New Technology Enterprise ("HNTE") status, MEAS China must obtain local governmental registration and certification, which is expected before May 2010. HNTE status is expected to decrease the tax rate for MEAS China from 18% to 15%.

The Company expects to continue investing in various capital projects in fiscal 2010, and capital spending in 2010 is expected to approximate \$7,000. This level is lower than fiscal 2009, because capital spending in 2009 included the completion of the new China facility, as well as reductions related to various cost control measures.

## RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2009 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2008

THE FOLLOWING TABLE SETS FORTH CERTAIN ITEMS FROM OPERATIONS IN OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2009 AND 2008, RESPECTIVELY:

	Three Months Ended			Percent Change
	December 31,		Change	
	2009	2008		
Net sales	\$ 54,755	\$ 43,299	\$ 11,456	26.5
Cost of goods sold	32,795	24,379	8,416	34.5
Gross profit	21,960	18,920	3,040	16.1
Operating expenses:				
Selling, general, and administrative	15,383	14,884	499	3.4
Non-cash equity based compensation	865	727	138	19.0
Amortization of acquired intangibles	1,465	1,255	210	16.7
Total selling, general and administrative expenses	17,713	16,866	847	5.0
Operating income (loss)	4,247	2,054	2,193	106.8
Interest expense, net	905	675	230	