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MEASUREMENT SPECIALTIES INC

Form 10-Q

November 14, 2002

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 QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002.

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.)

80 LITTLE FALLS ROAD, FAIRFIELD, NEW JERSEY 07004

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(973) 808-1819

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED
SINCE LAST REPORT.)

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

Indicate by check mark whether the registrant is an accelerated filer
(as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's
classes of common equity, as of the latest practicable date: 11,912,958 shares
of common stock, no par value per share, at November 12, 2002.

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

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	SEPTEMBER 30, 2002	MARCH 31, 2002
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,847	\$ 3,760
Accounts receivable, trade, net of allowance for doubtful accounts of \$649 and \$658, respectively	19,081	12,220
Inventories	14,957	16,026
Assets held for sale	--	36,632
Receivable from sale of Terrailon	1,282	--
Due from receiver	90	--
Prepaid expenses and other current assets	2,522	2,088
	-----	-----
Total current assets	40,779	70,726
	-----	-----
PROPERTY AND EQUIPMENT, NET	12,947	14,287
	-----	-----
OTHER ASSETS:		
Goodwill, net of accumulated amortization of \$483	4,191	4,191
Other assets	460	408

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	4,651	4,599
	-----	-----
Total assets	\$ 58,377	\$ 89,612
	=====	=====

See Notes to Condensed Consolidated Financial Statements

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

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	SEPTEMBER 30, 2002	MARCH 2001
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long term debt	\$ 9,358	\$ 2
Accounts payable	17,316	1
Accrued compensation	1,776	
Liabilities held for sale	--	1
Accrued expenses and other current liabilities	8,172	
	-----	-----
Total current liabilities	36,622	6
Other liabilities:		
Other liabilities	1,033	
	-----	-----
Total liabilities	37,655	6
	-----	-----
Commitments and contingencies		
Shareholders' equity		
Serial preferred stock; 221,756 shares authorized; none outstanding	--	
Common stock, no par; 20,000,000 shares authorized; 11,912,958 and 11,864,958 shares issued and outstanding, respectively	5,502	
Additional paid-in capital	42,616	4
Accumulated deficit	(27,330)	(2
Accumulated other comprehensive loss	(66)	
	-----	-----
Total shareholders' equity	20,722	2
	-----	-----
	\$ 58,377	\$ 8
	=====	=====

See Notes to Condensed Consolidated Financial Statements

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MEASUREMENT SPECIALTIES, INC
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE THREE MONTHS ENDED SEPTEMBER 30,
	2002	2001	2002
		AS RESTATED NOTE 3	
(\$ in thousands, except share and per share amounts)			
Net sales	\$ 32,437	\$ 25,835	\$ 56,000
Cost of goods sold	22,014	19,441	37,800
Gross profit	10,423	6,394	18,200
Operating expenses (income):			
Selling, general and administrative	9,917	9,364	17,900
Research and development	630	1,868	1,500
Customer funded development	(70)	(456)	(300)
Restructuring costs	530	--	1,100
Total operating expenses	11,007	10,776	20,200
Operating loss	(584)	(4,382)	(2,000)
Interest expense, net	625	962	1,300
Gain on sale of Wafer Fab	(109)	--	(100)
Other expense (income)	(93)	125	(100)
Loss from continuing operations before income taxes and cumulative effect of accounting change	(1,007)	(5,469)	(3,100)
Income tax benefit	--	(31)	--
Loss from continuing operations before cumulative effect of accounting change	(1,007)	(5,438)	(3,100)
Discontinued operations:			
Loss from operations of discontinued units	(374)	(397)	(3,900)
Gain on sale of Terrailon	340	--	300
Loss from discontinued units	(34)	(397)	(3,500)
Loss before cumulative effect of accounting change	(1,041)	(5,835)	(6,700)
Cumulative effect of accounting change, net of taxes	--	--	--
Net loss	\$ (1,041)	\$ (5,835)	\$ (6,700)
Loss per common share - Basic and Diluted			
Loss from continuing operations	\$ (0.09)	\$ (0.53)	\$ (0.09)

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Loss from discontinued units	--	(0.04)	(0.
Cumulative effect of accounting change	--	--	
	-----	-----	-----
Net loss	\$ (0.09)	\$ (0.57)	\$ (0.
	=====	=====	=====
Weighted average shares outstanding	11,913,000	10,272,000	11,906,0
	=====	=====	=====

See Notes to Condensed Consolidated Financial Statements

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MEASUREMENT SPECIALTIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED MARCH 31, 2002, AND THE SIX MONTHS ENDED SEPTEMBER 30, 2002

(\$ IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	OT COMPRE L
	-----	-----	-----	-----
BALANCE, APRIL 1, 2001	5,502	3,769	8,461	
Comprehensive loss, March 31, 2002:				
Net loss	--	--	(29,047)	
Currency translation adjustment	--	--	--	
Comprehensive loss				
Reversal of tax benefit on exercise of options	--	(1,534)	--	
2,530,000 common shares issued in secondary offering, net of expenses	--	30,874	--	
503,692 common shares issued upon acquisition	--	6,800	--	
182,434 common shares issued upon exercise of options	--	429	--	
315,492 common shares issued in private placement	--	2,008	--	
	-----	-----	-----	
BALANCE, MARCH 31, 2002	5,502	42,346	(20,586)	
Comprehensive loss (unaudited):				
Net loss (unaudited)	--	--	(6,744)	
Currency translation adjustment (unaudited)	--	--	--	
Comprehensive loss (unaudited)				
Proceeds from exercise of stock options (unaudited)	--	117	--	
Warrants issued for professional service (unaudited)	--	153	--	
	-----	-----	-----	
BALANCE, SEPTEMBER 30, 2002 (UNAUDITED)	\$ 5,502	\$ 42,616	\$ (27,330)	\$
	=====	=====	=====	=====

See Notes to Condensed Consolidated Financial Statements

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

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

FOR THE SIX MONTHS ENDED SEPTEMBER

	2002	2001
		As Restated Note 3
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (6,744)	\$ (8,380)
Adjustments to reconcile net loss to net cash provided by operating activities of continuing operations:		
Loss from discontinued operations	3,910	608
Depreciation and amortization	1,897	1,880
Deferred rent	28	99
Warrants issued for professional services	153	--
Gain on sale of Wafer Fab	(109)	--
Gain on sale of Terraillon	(340)	--
Net changes in operating assets and liabilities:		
Accounts receivable, trade	(6,861)	(1,901)
Inventories	1,069	5,360
Prepaid expenses and other current assets	(434)	(45)
Other assets	(102)	1,097
Accounts payable	4,084	(3,684)
Accrued expenses and other liabilities	3,481	(1,375)
Net cash provided by (used in) operating activities	32	(6,341)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(386)	(2,669)
Proceeds from sale of Wafer Fab	3,300	--
Proceeds from sale of Terraillon	16,668	--
Cash received from receiver	770	--
Acquisition of business, net of cash acquired	--	(10,669)
Net cash provided by (used in) investing activities	20,352	(13,338)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under bank line of credit agreement	2,450	14,156
Repayments of capital lease obligations	(107)	(117)
Repayments of debt	(22,266)	(21,793)
Proceeds from exercise of options and warrants	117	310
Proceeds from issuance of common stock	--	30,984
Net cash provided by (used in) financing activities	(19,806)	23,540
NET CHANGE IN CASH AND CASH EQUIVALENTS, CONTINUING OPERATIONS	578	3,861
Effect of exchange rates	369	--
Cash used for discontinued operations	(1,860)	(3,742)
Cash and cash equivalents, beginning of period	3,760	466
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,847	\$ 585
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 1,328	\$ 1,864

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Income taxes	--	326
Noncash transactions		
Common stock issued in connection with acquisition	--	6,800
Proceeds from capital lease	--	1,057

See Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (\$ IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

1. INTERIM FINANCIAL STATEMENTS:

Basis of presentation:

These interim financial statements were prepared pursuant to accounting principles for interim financial information, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Rules and Regulations of the Securities and Exchange Commission. Accordingly, while they conform with the measurement and classification provisions of accounting principles generally accepted in the United States, they do not include the footnote information required by accounting principles generally accepted in the United States for annual financial statements. Preparation of these financial statements requires management to make estimates and assumptions, which affect the amounts reported. Actual results could differ from those estimates. In the opinion of management, all accrual adjustments and disclosures necessary to make these interim financial statements not misleading have been included. Reference is made to the annual financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002. Operating results for the six months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending March 31, 2003.

Description of business:

Measurement Specialties, Inc., a New Jersey Corporation, ("MSI" or "the Company") is a designer and manufacturer of sensors and sensor-based consumer products. The Company produces a wide variety of sensors that use advanced technologies to measure precise ranges of physical characteristics, including pressure, motion, force, displacement, angle, flow and distance. The Company has a Sensor segment and a Consumer Products segment. The Sensor segment designs and manufactures sensors for leading original equipment manufacturers for electronic, automotive, medical, military and industrial applications. Sensor products include pressure sensors, custom microstructures and accelerometers. The Consumer Products segment designs and manufactures sensor based consumer products which are sold to leading retailers and distributors in both the United States and Europe. Consumer products include bathroom and kitchen scales, tire pressure gauges, and distance estimators.

Current Developments:

In February 2002, the Company, at its own initiative, contacted the staff of the SEC after discovering that its former Chief Financial Officer made the misrepresentation to senior management, the Board of Directors and the Company's auditors that a waiver of the Company's covenant default under its credit agreement had been obtained when the lenders had, in fact, refused to grant such a waiver. Since February 2002, the Company and a Special Committee formed by the Company's Board of Directors have been cooperating with the staff of the SEC. In June 2002, the staff of the Division of Enforcement of the SEC informed the

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Company that the SEC is conducting a formal investigation relating to matters reported in the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2001. The Company cannot predict how long the SEC investigation will continue or its outcome.

Liquidity and Going Concern:

The Company has incurred a net loss of \$29,047 for the year ended March 31, 2002, a net loss of \$6,744 for the six months ended September 30, 2002 and anticipates incurring additional losses for the next several quarters. From September 30, 2001 until October 31, 2002, the Company was in default of certain financial covenants in its credit agreement and, as a result of the restatement of previously issued

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financial statements, the Company was also in default of certain financial covenants for earlier periods. The Company sought, but did not obtain, a waiver of such events of default from its lenders (see Note 10).

As a result of the significant losses for the last several reporting periods and the Company's inability to make the required payments under the Company's loan agreement, management and the Board of Directors approved a restructuring program with the aim of reducing costs, streamlining operations and generating cash to repay the Company's lenders. As of March 31, 2002, excluding the effects of the Terrailon and Schaevitz UK dispositions, the Company has reduced its workforce by 138 employees as compared to its workforce as of June 30, 2001. Additionally, as of June 30, 2002, the Company had reduced its workforce by an additional 49 employees as compared to its workforce as of March 31, 2002. The Company expects this workforce reduction to result in a cost savings of approximately \$5,000 for the fiscal year ending March 31, 2003. The Company is currently examining the possibility of further workforce reductions. In addition, the Company (i) discontinued its operations in the United Kingdom, (ii) sold the assets related to its silicon wafer fab manufacturing operations in Milpitas, California, which were part of the Company's IC Sensors division for approximately \$5,250 in July 2002, (iii) sold all of the outstanding stock of Terrailon Holdings Limited, the Company's European subsidiary, for approximately \$22,300, and (iv) consolidated Valley Forge operations to Hampton. Approximately \$2,282 of the Terrailon sales price will be held in escrow until January 24, 2003 to secure payment of certain purchase price adjustments, if any, or any right of the purchaser to set off as a result of breaches of the Company's representations and warranties in the stock purchase agreement. Of the \$2,282 held in escrow, the Company has assumed that a portion of the escrow will be used to satisfy certain purchase price adjustments. The gain on sale reflects these anticipated purchase price adjustments (see Note 6).

The Company is currently in the process of responding to the claims made in the class action lawsuit (see Note 9). The Company intends to defend the foregoing lawsuit vigorously, but cannot predict the outcome and is not currently able to evaluate the likelihood of its success or the range of potential loss, if any. However, if the Company were to lose this lawsuit, the judgment would likely have a material adverse effect on its consolidated financial position, results of operations and cash flows. The Company has Directors and Officers insurance policies that provide an aggregate coverage of \$10,000 for the period during which the lawsuit was filed, but cannot evaluate at this time whether such coverage will be available or adequate to cover losses, if any, arising out of this lawsuit.

The Company is also the subject of a formal investigation being conducted by the

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Division of Enforcement of the United States Securities and Exchange Commission related to matters reported in the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2001. The United States Attorney for the District of New Jersey is also conducting an inquiry into the matters being investigated by the SEC. In addition, the trading of the Company's common stock on the American Stock Exchange ("AMEX") was suspended from July 15, 2002 until November 1, 2002. On August 21, 2002, the Company received a letter from the AMEX indicating that it no longer complied with AMEX listing guidelines due to the Company's failure to furnish certain reports and information to shareholders and that the Company's common stock is, therefore, subject to being delisted from the AMEX. The hearing with the AMEX to appeal the determination of the AMEX to delist the Company's common stock has been postponed indefinitely.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company has been pursuing and will continue to pursue, among other initiatives, i) negotiating with an asset based lender regarding a revolving credit facility, ii) seeking additional sales opportunities within its core business, iii) reducing expenses to a level that would provide the Company with sufficient cash flow to meet its obligations, and/or iv) a combination of any of the foregoing. Although there can be no assurances that the Company will be able to achieve any of the foregoing initiatives, the financial

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statements included in this report do not contain any adjustments that might be necessary if the Company is unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation:

The consolidated financial statements include the accounts of MSI and its wholly-owned subsidiaries (the "Subsidiaries"): Measurement Limited, organized in Hong Kong ("ML"); Jingliang Electronics (Shenzhen) Co. Ltd. ("JL"), organized in the People's Republic of China ("China"); IC Sensors Inc. ("IC Sensors"); Measurement Specialties, U.K. Limited ("Schaevitz, UK"), organized in the United Kingdom; and Terrailon Holdings Limited, organized in Ireland, and its wholly-owned subsidiaries ("Terrailon"); all collectively referred to as the "Company." As discussed in Note 6, the Company placed Schaevitz UK in receivership in June 2002 and sold Terrailon in September 2002; accordingly, the results from these operations are reflected as discontinued operations. All significant intercompany balances and transactions have been eliminated.

Reclassifications:

Certain reclassifications have been made to conform prior years to the current period's presentation.

Derivative Instruments:

The Company adopted SFAS 133, as amended, as of April 1, 2001. The cumulative effect of the adoption of the accounting principle was \$248 and was recorded in the first quarter of the fiscal year ended 2002.

Recent Accounting Pronouncements:

On July 29, 2002, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with

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exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 is required to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company is currently evaluating the impact of this standard.

The Company's current policy is to accrue restructuring and other costs at commitment date of a plan in accordance with the provisions of Emerging Issues Task Force ("EITF") No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges." Accordingly, the Company has provided for certain restructuring costs during the year ended March 31, 2002 and the six months ended September 30, 2002 (see note 4).

The Company adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections," effective May 15, 2002. The Statement rescinds SFAS No. 4 which required all gains and losses from extinguishment of debt to be aggregated and, when material, classified as an extraordinary item net of related income tax effect. SFAS No. 145 also amends Statement 13 to require that certain lease modifications having economic effects similar to sale-leaseback

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transactions be accounted for in the same manner as sale-leaseback transactions. The Company does not expect this Statement will have a material effect on its financial position or results of operations.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective April 1, 2002. This standard supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The standard retains the previously existing accounting requirements related to the recognition and measurement of the impairment of long-lived assets to be held and used while expanding the measurement requirements of long-lived assets to be disposed of by sale to include discontinued operations. It also expands on the previously existing reporting requirements for discontinued operations to include a component of an entity that either has been disposed of or is classified as held for sale.

The Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," effective April 1, 2002. This standard addresses financial accounting and reporting for obligations associated with retirement of tangible long-lived assets and the associated assets' retirement costs.

3. RESTATEMENT:

Based on the advice of its auditors and discussion with the Securities and Exchange Commission, the Company determined it was necessary to conduct a thorough re-examination of its historical determination of inventory values and cost of goods sold. As a result of additional procedures employed a number of errors in the Company's historical inventory valuation relating to the absorption of manufacturing costs were discovered. Each of the Company's business units experienced various types of calculation and application errors. These errors varied by quarter, type and cause. The errors and causes thereof are included in the following general categories:

- o Failure to analyze and account for standard cost variances

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properly and on a timely basis;

- o Failure to use readily available accounting and costing records to determine manufacturing costs;
- o Inclusion of inappropriate expenses in inventory cost pools;
- o Apparent mathematical errors (including amounts used in calculations that could not be reconciled to the Company's underlying accounting records);
- o Failure to adjust inventories to the lower of cost or market; and
- o Use of inconsistent parameters to determine cost pools that relate to inventory at each reporting period.

Accordingly, the Company has restated its financial statements for the fiscal year ended March 31, 2001, its results of operations for the six months ended September 30, 2001 and its previously issued selected financial information for each of the quarterly periods in the fiscal year ended March 31, 2001 and the first three quarters in the fiscal year ended March 31, 2002. The effect of the restatement was a reduction of our previously reported inventory values and operating income and a corresponding increase to costs of goods sold aggregating approximately \$8,200 for the fiscal year ended March 31, 2001, \$691 for the three months ended September 30, 2001, and \$4,672 for the six months ended September 30, 2001.

In connection with the restatement and due in part to the cessation of operations of Arthur Andersen LLP, the previous auditors of the Company's financial statements for the fiscal year ended March 31, 2001, the Company requested its current auditors to conduct a reaudit of its financial statements for the fiscal year ended March 31, 2001. The reaudit resulted in the following additional adjustments for the three and six months ended September 30, 2001: reclassification of certain costs included in selling, general, and administrative expenses to revenue for \$256 and \$469, amortization of patents in the amount of \$59 and \$118; straight-lining of lease expense in accordance with SFAS No. 13 in the amount of \$32 and \$99; and certain other adjustments. As a result of all the above adjustments, the Company recalculated its tax

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provision resulting in a reduction of a previously reported tax benefit of \$1,242 and \$783. In addition, the results of operations for the three and six months ended September 30, 2001 have been adjusted to reclassify the results of discontinued operating units.

The following is a summary of the significant effects of the restatement of results for the three and six months ended September 30, 2001:

THREE MONTHS ENDED SEPTEMBER 30, 2001
(UNAUDITED)

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	REPORTED	RESTATED	OPERA
	-----	-----	-----
Consolidated statements of operations data:			
Sales	\$ 34,868	\$ 34,612	\$
Cost of goods sold	26,186	26,877	
Selling, general and administrative	11,162	10,997	
Loss from continuing operations before income taxes and cumulative effect of accounting change	(5,081)	(5,863)	
Income tax benefit	(1,270)	(28)	
Loss from continuing operations before cumulative effect of accounting change	(3,811)	(5,835)	
Loss from operations of discontinued units	--	--	
Net loss	(3,811)	(5,835)	
Loss per common share:			
Basic	(0.37)	(0.57)	
Diluted	(0.37)	(0.57)	

SIX MONTHS ENDED SEPTEMBER 30, 2001
(UNAUDITED)

	PREVIOUSLY REPORTED	AS RESTATED	AS R ADJUS DISCO OPERA
	-----	-----	-----
Consolidated statements of operations data:			
Sales	\$ 60,739	\$ 60,270	\$
Cost of goods sold	41,358	46,030	
Selling, general and administrative	18,260	18,008	
Loss from continuing operations before income taxes and cumulative effect of accounting change	(3,282)	(8,171)	
Income tax benefit	(822)	(39)	
Loss from continuing operations before cumulative effect of accounting change	(2,460)	(8,132)	
Loss from operations of discontinued units	--	--	
Loss from cumulative effect of accounting change	(2,460)	(8,132)	
Cumulative effect of accounting change, net of taxes	--	(248)	
Net loss	(2,460)	(8,380)	
Loss per common share:			
Basic	(0.26)	(0.90)	
Diluted	(0.26)	(0.90)	

SEPTEMBER 30, 2001
(UNAUDITED)

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	PREVIOUSLY REPORTED	AS RESTATED	AS REST ADJUSTE DISCONT OPERATI
	-----	-----	-----
Consolidated balance sheet data:			
Inventories	\$ 44,072	\$ 31,894	\$
Goodwill	21,540	11,271	
Trademarks	--	9,549	
Other assets	4,484	3,818	
Accrued expenses and other current liabilities	8,267	8,255	
Other liabilities	1,082	1,181	
Accumulated retained earnings	13,765	81	
Stockholders' equity	60,910	47,226	

(1) The consolidated statement of operations data and consolidated balance sheet data have been adjusted to reclassify the results of discontinued operating units and assets and liabilities held for sale.

4. RESTRUCTURING AND OTHER COSTS:

During the quarter ended March 31, 2002, management and the Board of Directors approved a plan of reduction of workforce and a reduction of operating capacity at certain locations. The reduction in workforce consisted of 106 employees in the quarter ended March 31, 2002, and 49 additional employees in the quarter ended June 30, 2002 in the consumer and sensor segments, in addition to the corporate offices. Costs associated with this restructuring consist of severance costs and the writedown of fixed assets which amounted to \$1,413 in the quarter ended March 31, 2002, an accrual of \$443 in the quarter ended June 30, 2002 for potential expense related to lease termination and an additional \$150 for severance, and an additional accrual of \$530 in the quarter ended September 30, 2002 for potential expense related to lease termination and writedown of fixed assets. As of September 30, 2002 \$15 of the severance costs has not been paid. As of September 30, 2002, \$756 of other restructuring costs remain in the accrual.

5. INVENTORIES:

Inventories are summarized as follows:

	SEPTEMBER 30, 2002	MARCH 31, 2002
	-----	-----
Raw Materials	\$ 7,319	\$ 7,111
WORK-IN-PROCESS	2,393	1,986
FINISHED GOODS	5,245	6,929
	-----	-----
	\$ 14,957	\$ 16,026
	-----	-----

6. DISCONTINUED OPERATIONS, ASSETS AND LIABILITIES HELD FOR SALE, AND GAIN OR LOSS ON SALE OF ASSETS:

As a result of the restructuring plan, the Company sold all of the outstanding stock of Terrillon, previously a component of the Company's Consumer segment, in September 2002 and sold the assets, principally property and equipment,

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related to its IC Sensors silicon wafer fab manufacturing operations, previously a component of the Company's Sensor segment, in July 2002. The assets held for sale in the amount of \$36,632 at March 31, 2002 and liabilities held for sale in the amount of \$12,800 at March 31, 2002 represent the assets and liabilities from these operations.

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Since these businesses were disposed of by September 30, 2002, the assets and liabilities have been removed from the balance sheet. The amounts for Terrailon on the consolidated statements of operations for the three and six months ended September 30, 2002 and 2001 have been reclassified as discontinued operations to reflect the disposal of this operating unit.

In July 2002, the Company sold the assets, principally property and equipment, related to its silicon wafer fab manufacturing operation in Milpitas, CA to Silicon Microstructures, Inc. (SMI), a wholly-owned subsidiary of Elmos Semiconductor AG. The wafer fab operation was formerly part of the Company's IC Sensors division. The price paid by SMI for the assets was approximately \$5,250, consisting of approximately \$3,370 in cash and \$1,880 in prepaid credit for products and services, subject to reduction under certain circumstances. Approximately \$900 of the cash purchase price was used to satisfy an outstanding equipment lease obligation. The prepaid credit for products and services, if utilized, will be accounted as a component of wafer costs. The gain on this sale was approximately \$109, net of tax, and has been reflected in the Condensed Consolidated Statements of Operations as "Gain on Sale of Wafer Fab" for the three and six months ended September 30, 2002.

In September 2002, the Company sold all of the outstanding stock of Terrailon Holdings Limited, a European manufacturer of branded consumer bathroom and kitchen scales, to Fukuda (Luxembourg) S.a.r.l. ("Fukuda"), an investment holding company incorporated in Luxembourg, for \$22,300. Approximately \$2,282 of the purchase price will be held in escrow until January 24, 2003 to secure payment of certain purchase price adjustments, if any, or any right of Fukuda to set off as a result of breaches of the Company's representations and warranties in the stock purchase agreement. Of the \$2,282 held in escrow, the Company has assumed that a portion of the escrow will be used to satisfy certain purchase price adjustments. The gain on sale reflects these anticipated purchase price adjustments. Fukuda also assumed approximately \$4,800 in debt in connection with the acquisition of Terrailon. The gain on this sale was approximately \$340, net of tax, subject to further adjustments, and has been reflected in the Condensed Consolidated Statements of Operations as "Gain on Sale of Terrailon" for the three and six months ended September 30, 2002.

The Company placed its United Kingdom subsidiary, Schaevitz UK (previously a component of the Company's Sensor segment), into receivership on June 5, 2002 pursuant to the terms of a Mortgage Debenture dated February 28, 2001, as the Company was no longer in a position to support its losses. The receiver's function was to dispose of Schaevitz UK's business and assets for the best price possible. The book debt recoveries and sale proceeds were applied in settlement of the receiver's remuneration, costs and expenses, the preferential creditors' claims, (i.e. the claims of the Inland Revenue, Customs & Excise and employee claims up to certain statutory limits) and then to (i) claims by the Company's lenders in accordance with UK insolvency legislation (the Insolvency Act 1986) and (ii) priority arrangements. Schaevitz, UK's landlord has a potential dilapidations claim of up to 350 Pounds Sterling (approximately \$557 United States dollars based on market exchange rates as of November 11, 2002) against Schaevitz UK that arose on the expiration of the lease of 543/544 Ipswich Road Trading Estate, Slough, Berkshire, England on June 23, 2002. The Company is currently in negotiations with the landlord regarding this matter. The results

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of operations of Schaevitz UK are reflected in discontinued operations from April 1, 2002 through the June 5, 2002 date of liquidation. During the six months ended September 30, 2002, the Company incurred approximately \$3,577 of costs and expenses in connection with the liquidation of Schaevitz UK, which consisted of writedown of prepaid pension costs of \$2,309 and receiver and other costs of \$1,268. The Company estimated the amount recoverable from the liquidation was approximately \$860. At September 30, 2002 the amount of "Due from Receiver" was \$90.

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The following is a summary of the components of assets and liabilities held for sale:

Assets held for sale:

	MARCH 31, 2002			
	TERRAILLON	SCHAEVITZ, UK	WAFER FAB	
Cash and cash equivalents	\$ 401	\$ 381	\$ --	\$
Accounts receivable	5,735	1,959	--	
Inventories	6,023	920	--	
Other current assets	1,433	101	--	
	13,592	3,361	--	
PROPERTY AND EQUIPMENT	1,883	--	4,955	
Less accumulated depreciation and amortization	1,043	--	1,737	
	840	--	3,218	
OTHER ASSETS:				
Goodwill, net	4,074	--	--	
Trademarks	9,477	--	--	
Other assets	--	2,070	--	
	13,551	2,070	--	
Total assets	27,983	5,431	3,218	
Liabilities held for sale:				
Current portion of long-term debt	2,534	--	943	
Accounts payable	5,102	918	--	
Accrued compensation	537	98	--	
Accrued expenses and other current liabilities	2,068	344	--	
Total current liabilities	10,241	1,360	943	
OTHER LIABILITIES:				
Long-term debt, net of current portion	249	--	--	
Other liabilities	7	--	--	

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Total liabilities	\$ 10,497	\$ 1,360	\$ 943	\$
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A summary of the results of operations of the discontinued operating units follows:

	FOR THE THREE MONTHS ENDED SEPTEMBER		
	2002	2001	
	TERRAILLON	TERRAILLON (1)	SCHAEVITZ
Net sales	\$ 10,007	\$ 7,068	\$
Cost of goods sold	7,925	5,699	
Gross profit	2,082	1,369	
Operating expenses:			
Selling, general and administrative	2,477	1,141	
Research and development	--	41	
Total operating expenses	2,477	1,182	
Operating income (loss)	(395)	187	
Interest expense, net	(13)	(10)	
Other income	39	50	
Income (loss) before income taxes	(369)	227	
Provision for income taxes	5	3	
Net income (loss) from discontinued operations	\$ (374)	\$ 224	\$

	FOR THE SIX MONTHS ENDED SEPTEMBER			
	2002			TERRAILLON (1)
	TERRAILLON	SCHAEVITZ, UK	TOTAL	
Net sales	\$ 18,678	\$ 905	\$ 19,583	\$ 7,068
Cost of goods sold	13,244	617	13,861	5,699
Gross profit	5,434	288	5,722	1,369
Operating expenses:				
Selling, general and administrative	5,835	149	5,984	1,141
Research and development	--	68	68	
Restructuring costs	--	3,577	3,577	

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Total operating expenses	5,835	3,794	9,629	1,1
Operating income (loss)	(401)	(3,506)	(3,907)	1
Interest expense, net	(25)	2	(23)	(
Other (income) expense	27	(7)	20	
	-----	-----	-----	-----
Income (loss) before income taxes	(399)	(3,511)	(3,910)	2
Provision for income taxes	--	--	--	
	-----	-----	-----	-----
Net income (loss) from discontinued operations	\$ (399)	\$ (3,511)	\$ (3,910)	\$ 2
	=====	=====	=====	=====

(1) Terrailon was acquired in August, 2001.

7. PER SHARE INFORMATION:

Basic per share information is computed based on the weighted average common shares outstanding during each period. Diluted per share information additionally considers the shares that may be issued upon exercise or conversion of stock options, less the shares that may be repurchased with the funds received from their exercise. Diluted earnings per share is not presented as the results are antidilutive.

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Excluded from earnings per share are 92,000 and 169,000 equivalent shares for the three and six months ended September 30, 2002 and 470,000 and 597,000 equivalent shares for the three and six months ended September 30, 2001, respectively, as their inclusion would be antidilutive.

8. SEGMENT INFORMATION:

The Company has two businesses ("segments"), a Sensor business and a Consumer Products business.

The Company's Sensor business designs, manufactures, and markets sensors for original equipment manufacturer applications. These products include pressure sensors, custom microstructures, accelerometers, tilt/angle sensors, and displacement sensors for electronic, automotive, military, and industrial applications.

The Company's Consumer Products business manufactures and markets sensor-based consumer products. These products include bathroom and kitchen scales, tire pressure gauges, and distance estimators. These products are typically based on application-specific integrated circuits, piezoresistive, and ultrasonic technologies.

Segment data have been presented on a basis consistent with how business activities are reported internally to management.

The accounting policies of the segments are substantially the same as those described in Note 1.

The Company has no material intersegment sales.

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The following is information related to industry segments:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
Net sales		
Consumer Products	\$ 18,432	\$ 13,460
Sensors	14,005	12,375
	32,437	25,835
Operating income (loss)		
Consumer Products	3,395	496
Sensors	449	(3,749)
	3,844	(3,253)
Unallocated expenses	(4,428)	(1,129)
	(584)	(4,382)
Interest expense, net of interest income	625	962
Other (income) loss	(202)	125
	(1,007)	(5,469)
	(1,007)	(5,469)

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	SIX MONTHS ENDED SEPTEMBER 30,	
	2002	2001
Net sales		
Consumer Products	\$ 29,639	\$ 24,110
Sensors	26,444	25,426
	56,083	49,536
Operating income (loss)		
Consumer Products	4,758	964
Sensors	603	(4,834)
	5,361	(3,870)
Unallocated expenses	(7,449)	(1,615)
	(2,088)	(5,485)
Interest expense, net of interest income	1,345	1,972
Other (income)	(259)	109

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Loss from continuing operations before income taxes and cumulative effect of accounting change	\$ (3,174)	\$ (7,566)
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	SEPTEMBER 30, 2002	MARCH 31, 2002
Segment Assets		
Consumer products	\$ 23,978	\$ 15,634
Sensors	29,682	35,152
Unallocated	4,627	2,194
Assets held for sale	--	36,632
Due from receiver	90	--
Total	\$ 58,377	\$ 89,612

9. COMMITMENTS AND CONTINGENCIES:

CLASS ACTION LAWSUIT

On March 20, 2002, a class action lawsuit was filed on behalf of purchasers of the Company's common stock in the United States District Court for the District of New Jersey against Measurement Specialties and certain of its present and former officers and directors. The complaint was subsequently amended to include the underwriters in the Company's August 2001 public offering and the Company's former auditors. The lawsuit alleges violations of the federal securities laws including, among other things, that the registration statement related to the Company's August 2001 public offering and the Company's periodic SEC filings misrepresented or omitted material facts and that certain of the Company's officers made false or misleading statements of material fact. The lawsuit seeks an unspecified award of money damages. After March 20, 2002, nine additional similar class actions were filed in the same court. The ten lawsuits have been consolidated into one case under the caption In re: Measurement Specialties, Inc. Securities Litigation, 02 Civ. No. 1071 (D.N.J.). Plaintiffs filed a Consolidated Amended Complaint on

September 12, 2002. The Company must file a responsive pleading by December 9, 2002. The underwriters have made a claim for indemnification under the underwriting agreement. The Company is currently in the process of responding to the claims made in the class action lawsuit. The Company intends to defend the foregoing lawsuit vigorously, but cannot predict the outcome and is not currently able to evaluate the likelihood of success or the range of potential loss, if any. However, if the Company were to lose this lawsuit, judgment would likely have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. The Company has Directors and Officers insurance policies that provide an aggregate coverage of \$10,000 for the period during which the claims were filed, but cannot evaluate at this time whether such coverage will be available or adequate to cover losses, if any, arising out of this litigation.

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SEC INVESTIGATION

In February 2002, the Company, at its own initiative, contacted the staff of the SEC after discovering that the Company's former Chief Financial Officer had made the misrepresentation to senior management, the Board and the Company's auditors that a waiver of the covenant default under the Company's credit agreement had been obtained when, in fact, the lenders refused to grant such a waiver. Since February 2002, the Company and a Special Committee formed by the Company's Board of Directors have been cooperating with the staff of the SEC. In June 2002, the staff of the Division of Enforcement of the SEC informed the Company that it is conducting a formal investigation relating to matters reported in the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2001. The Company cannot predict how long the SEC investigation will continue or its outcome.

UNITED STATES ATTORNEY INQUIRY

The Company has also learned that the Office of the United States Attorney for the District of New Jersey is conducting an inquiry into the matters that are being investigated by the SEC. The Company cannot predict how long the United States Attorney's inquiry will continue or its outcome.

OTHER LITIGATION

In re Service Merchandise Company, Inc. (Service Merchandise Company, Inc. v. Measurement Specialties, Inc.), United States Bankruptcy Court for the Middle District of Tennessee, Nashville Division, Case No. 399-02649, Adv. Pro. No. 301-0462A.

The Company is currently the defendant in a lawsuit filed in March 2001 by Service Merchandise Company, Inc. ("SMC") and its related debtors (collectively, the "Debtors") in the context of the Debtors' Chapter 11 bankruptcy proceedings. The Bankruptcy Court entered a stay of the action in May 2001, which was lifted in February 2002. Citing 11 U.S.C. Section 547(b), the action alleges that the Company received \$645 from one or more of the Debtors during the ninety (90) day period before the Debtors filed their bankruptcy petitions, that the transfers were to the Company's benefit, were for or on account of an antecedent debt owed by one or more of the Debtors, made when one or more of the Debtors were insolvent, and that the transfers allowed the Company to receive more than it would have received if the cases were cases under Chapter 7 of the United States Bankruptcy Code. The action seeks to disgorge the sum of \$645 from the Company. It is not possible at this time to predict the outcome of the litigation or estimate the extent of any damages that could be awarded in the event that the Company is found liable to the estates of SMC or the other Debtors.

Robert L. DeWalt v. Measurement Specialties, Inc. et al., United States District Court, District of New Jersey, Civil Action No. 02-CV-3431.

On July 17, 2002, Robert DeWalt, the Company's former acting Chief Financial Officer and general manager of the Company's Schaevitz Division, filed a lawsuit against Measurement Specialties, Inc. and certain of the Company's officers and directors. Mr. DeWalt resigned on March 26, 2002 in disagreement with management's decision not to restate certain of the Company's financial statements. The lawsuit alleges a claim for constructive wrongful discharge and violations of the New Jersey Conscientious Employee Protection Act. Mr. DeWalt seeks an unspecified amount of compensatory and punitive damages. The Company has filed a Motion to Dismiss this case. The Company intends to defend the

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foregoing lawsuit vigorously, but cannot predict the outcome and is not currently able to evaluate the likelihood of success or the range of potential loss, if any.

Hibernia Litigation

On or about July 23, 2002, Hibernia Capital Partners I, ilp and Hibernia Capital Partners II, ilp filed a lawsuit against Measurement Specialties in the High Court of Dublin. The Plenary Summons states that plaintiffs seek a declaration that the plaintiffs entered into the share purchase agreement on June 7, 2001 for the sale of their shares in Terrailon Holdings Limited to Measurement Specialties as a result of an operative misrepresentation and misstatement. Plaintiffs further seek damages for misrepresentation and/or breach of contract and/or breach of warranty and costs of the proceedings. On August 9, 2002, the Company entered an Appearance, which is the equivalent of the acceptance of service of process. On August 22, 2002, plaintiffs filed a Statement of Claim, which is the equivalent of a complaint. The Company is still engaged in the initial pleadings process wherein plaintiffs' claims and the Company's defenses will be set forth in detail. The Company intends to defend the foregoing lawsuit vigorously, but cannot predict the outcome and is not currently able to evaluate the likelihood of success or the range of potential loss, if any.

Semex, Inc. vs. Measurement Specialties, Inc. and AMP Incorporated, Court of Common Pleas, Montgomery County, Pennsylvania.

On October 24, 2002, Semex, Inc. ("Semex") filed a lawsuit against the Company and AMP Incorporated alleging breaches of the lease for the Company's former facility in the Valley Forge, Pennsylvania. The Company is the assignee of AMP Incorporated under the lease. The plaintiff alleges that the Company owes at least \$770 for certain payment defaults under the lease. The plaintiff also seeks an unspecified amount of damages related to plaintiff's allegations of, among other things, damage to the property, failure to remove alterations and failure to conduct environmental testing. At this point in the litigation, the Company cannot predict its outcome.

The Company has other litigation occurring in the normal course of its business. The Company does not believe that this litigation will have a material effect on financial position or results of operations.

10. RELATED PARTY TRANSACTION

In May 2002, the Company retained Corporate Revitalization Partners (CRP) to conduct its ongoing operational/financial restructuring efforts. In June 2002, Frank Guidone, Managing Director of CRP, became the Company's chief executive officer. As of November 9, 2002, the Company has incurred \$1,606 in consulting fees to CRP (excluding the success fees described in the following sentence). In addition to consulting fees based on hours billed by CRP consultants, there is a "success fee" consisting of \$50 and a warrant exercisable to purchase 43,860 shares of the Company's common stock (at an exercise price of \$2.28 per share) that was payable upon the occurrence of each of the following three events:

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- o The successful negotiation and execution of an extended forbearance agreement with the Company's former lenders (this agreement has been executed);
- o The Company's compliance as of September 30, 2002 with the terms of the forbearance agreement with its former lenders (the Company was in

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compliance with the forbearance agreement as of September 30, 2002); and

- o The repayment of all amounts due to the Company's existing senior lenders and refinancing of the Company's debt on or before November 1, 2002 (this event was not met and accordingly, the fee will not be paid and the warrant will not be issued).

During the three months ended September 30, 2002, the Company has expensed \$153 relating to the warrants.

On October 31, 2002, the Company received a \$9,300 bridge loan from Castletop Capital, L.P., a limited partnership controlled by Mort Topfer, Vice Chairman of our Board of Directors. The proceeds from this loan were used to repay all our obligations under the term loan and revolving credit facility; accordingly, the Company is no longer in default and these facilities have been eliminated. The loan is evidenced by a Senior Secured Note due January 31, 2003 and does not include a revolving credit facility. Interest on the note accrues at a rate of 7% per annum (subject to a 2% increase upon the occurrence of an event of default under the note). The Company's obligations under the note are secured by a lien on substantially all of our assets and substantially all of the assets of IC Sensors. Castletop Capital also received a Warrant to purchase up to 297,228 shares of our common stock for an exercise price equal to the average closing price of the Company's common stock on the American Stock Exchange for the first five trading days after October 31, 2002 (\$1.64 per share). The exercise price and number of shares subject to the warrant are subject to adjustment under certain circumstances. The terms of the warrant issued to Castletop Capital, L.P. are substantially similar to the terms of the warrant that would have been issued to the Company's lending group in the event that the Company had not repaid all amounts outstanding under its term loan and revolving credit facility on or before November 1, 2002.

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

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

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

OVERVIEW

We are a designer and manufacturer of sensors and sensor-based consumer products. We produce a wide variety of sensors that use advanced technologies to measure precise ranges of physical characteristics, including pressure, motion, force, displacement, angle, flow, and distance. We have two businesses, a Sensor business and a Consumer Products business.

Our Sensor business designs, manufactures, and markets sensors for original equipment manufacturer applications. These products include pressure sensors, custom microstructures, accelerometers, tilt/angle sensors, and displacement sensors for electronic, automotive, military, and industrial applications. Our Sensor business customers include leading manufacturers such as Alaris Medical, Texas Instruments, Allison Transmission, Althen GmbH, and Graco.

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Our Consumer Products business manufactures and markets sensor-based consumer products. These products include bathroom and kitchen scales, tire pressure gauges, and distance estimators. These products are typically based on application-specific integrated circuits, piezoresistive, and ultrasonic technologies. Our Consumer Products customers include leading retailers such as Bed Bath & Beyond, Linens 'n Things, Sears, Costco and Target, and European resellers such as Laica, Ole Bodtcher Hanson, and Babyliss.

RESTATEMENT

Background - Examination of Inventory Valuation; Capitalized Overhead Calculations

In August 2001, we determined that the implementation of a more comprehensive and standardized cost accounting system was necessary as a result of the expansion of our company through recent acquisitions, and we hired an experienced cost accountant, Robert DeWelt, to, among other things, implement this system. This process included updating standard inventory costs at two of our locations. After review and analysis, management, in November 2001, completed the update of standard costs for these two locations and revised the estimated capitalized overhead calculations used in valuing the inventory located there, but concluded that a more complete analysis, including an examination of inventory valuation at our other locations, was necessary. The review process also raised questions regarding the appropriateness of our inventory costing methodology.

After the termination of our Chief Financial Officer in February 2002, we briefly retained PricewaterhouseCoopers (PwC) as a consultant with regard to the appropriateness of our inventory costing methodology, including specifically the methodology used in allocating fixed manufacturing expenses to inventory and cost of sales. PwC was not engaged to, nor did they, reach a conclusion or

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render any type of opinion regarding this matter. Additionally, because of PwC's limited role, they were not involved in our final resolution of this issue.

In February 2002, our Board formed a Special Committee consisting of all of our outside directors. The Special Committee performed a limited review of the appropriateness of our inventory valuation methodology, including whether a misapplication of accounting principles would require a restatement of previously reported financial statements. The Special Committee retained independent counsel to assist in its investigation and, through its independent counsel, retained RosenfarbWinters, LLC as special accounting advisors to the Special Committee.

Initial Decision Not to Restate Financial Statements for Periods Prior to December 31, 2001

In March 2002, management initially determined that the calculation of capitalized overhead was in compliance with applicable accounting principles and concluded that the increase in cost of sales and attendant reduction in inventory value during the quarter ended December 31, 2001 was largely attributable to changes in accounting estimates relating to the general absorption of direct labor and overhead costs and therefore no restatement of previously reported financial results was necessary. This determination was based on management's belief that the calculation was appropriately capturing direct labor and overhead costs. Robert DeWelt (who had been temporarily given

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the title of "Acting CFO" after the termination of our former Chief Financial Officer, Kirk Dischino) and Edward McCausland, our Controller, resigned in disagreement with management's conclusion not to restate prior period financial statements.

We subsequently retained Amper, Politziner and Mattia, PC (APM) in April 2002 to assist and work under the direction of management in our analysis and quantification of inventory calculations and to consult as to whether or not any errors in the application of accounting principles or in the preparation of our financial statements required restatement of previously reported financial statements.

In May 2002, management again determined that the calculation of capitalized overhead was in compliance with applicable accounting principles and concluded that the increase in cost of sales and attendant reduction in inventory value during the quarter ended December 31, 2001 was largely attributable to changes in accounting estimates and therefore no restatement of previously reported financial results was necessary. Our Board of Directors concurred in the decision not to restate prior periods. In its limited review, the Special Committee concluded that no information had been brought to its attention that would render management's decision inappropriate. APM, RosenfarbWinters, and our independent auditors, Arthur Andersen, LLP, concurred in this conclusion. PwC's engagement ended prior to the completion of our analysis and the Board's determination.

Decision to Restate

On June 11, 2002, we retained Grant Thornton LLP to replace Arthur Andersen LLP as our independent auditor. We appointed a new Chief Executive Officer in June 2002 and appointed a new Chief Financial Officer in July 2002. Based upon the advice of our new auditor and after consultation with the United States Securities and Exchange Commission, our new senior management team determined that it was necessary to conduct a thorough re-examination of our historical determination of inventory values and costs of goods sold. Beginning in July 2002, we concurred with our auditor's recommendation to expand the scope of their audit work to include an extended analysis of our inventory valuation calculations. As part of our auditor's procedures, they obtained detailed operating and production data for our operating units, validated the underlying data and applied the resulting data to assist new senior management in the accurate determination of inventories valued at the lower of cost or estimated market value. As a result of these procedures, our auditors discovered a number of errors in our inventory valuation calculations.

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Each of our business units experienced various types of calculation and application errors. These errors varied by quarter, type and cause. The errors and causes thereof are included in the following general categories:

- o Failure to analyze and account for standard cost variances properly and on a timely basis;
- o Failure to use readily available accounting and costing records to determine manufacturing costs;
- o Inclusion of inappropriate expenses in inventory cost pools;
- o Apparent mathematical errors (including amounts used in

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calculations that could not be reconciled to our underlying accounting records);

- o Failure to adjust inventories to the lower of cost or market; and
- o Use of inconsistent parameters to determine cost pools that relate to inventory at each reporting period.

We have determined that these errors in our valuation of inventory were of a sufficient magnitude to require restatement. Accordingly, we have restated our previously issued financial statements for the fiscal year ended March 31, 2001 and our previously issued selected financial information for each of the quarterly periods in the fiscal year ended March 31, 2001 and the first three quarters in the fiscal year ended March 31, 2002. The effect of the restatement was an increase in cost of goods sold aggregating approximately \$8,200 for the fiscal year ended March 31, 2001, \$691 for the three months ended September 30, 2001 and \$4,672 for the six months ended September 30, 2001. During the course of our review, we did not identify errors of a significant magnitude to require restatement of periods ending prior to April 1, 2000.

In connection with the restatement of our inventory and cost of sales values, and due in part to the cessation of operations of Arthur Andersen LLP, the previous auditors of our financial statements for the fiscal year ended March 31, 2001, we instructed our current auditors to conduct a reaudit of our financial statements for the fiscal year ended March 31, 2001. The reaudit and the audit for the fiscal year ended March 31, 2002 resulted in the following additional adjustments to the previously reported results for the three and six months ended September 30, 2001, respectively:

- o Reclassification of certain promotional costs from selling, general and administrative to a reduction in revenue of \$256 and \$469;
- o Amortization of patents in the amount of \$59 and \$118;
- o Straight-lining of lease expense in accordance with SFAS 13 in the amount of \$32 and \$99; and
- o Certain other adjustments.

As a result of the restated items described above, including the inventory valuation issue, we recomputed our tax provision for the three and six months ended September 30, 2001, resulting in a reduction of our previously reported tax benefit by \$1,242 and \$783, respectively.

The following is a summary of the significant effects of the restatement discussed above on our results for the three and six months ended September 30, 2001:

THREE MONTHS ENDED SEPTEMBER 30, 2001
(UNAUDITED)

PREVIOUSLY REPORTED	AS RESTATED
------------------------	----------------

AS RE ADJUSTED DISCLOSURE OPERATIONS

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CONSOLIDATED STATEMENTS OF OPERATIONS DATA:

	\$	34,868	\$	34,612	\$
Sales					
Cost of goods sold					
Selling, general and administrative					
Loss from continuing operations					
before income taxes and cumulative					
effect of accounting change		(5,081)		(5,863)	
Income tax benefit		(1,270)		(28)	
Loss from continuing operations					
before cumulative effect of accounting change		(3,811)		(5,835)	
Loss from operations of discontinued units		--		--	
Net loss		(3,811)		(5,835)	
Loss per common share:					
Basic		(0.37)		(0.57)	
Diluted		(0.37)		(0.57)	

SIX MONTHS ENDED SEPTEMBER 30, 20
(UNAUDITED)

CONSOLIDATED STATEMENTS OF OPERATIONS DATA:

	\$	60,739	\$	60,270	\$
Sales					
Cost of goods sold					
Selling, general and administrative					
Loss from continuing operations					
before income taxes and cumulative					
effect of accounting change		(3,282)		(8,171)	
Provision for income taxes		(822)		(39)	
Loss from continuing operations					
before cumulative effect of accounting change		(2,460)		(8,132)	
Loss from operations of discontinued units		--		--	
Loss from cumulative effect of					
accounting change		(2,460)		(8,132)	
Cumulative effect of accounting change, net					
of taxes		--		(248)	
Net loss		(2,460)		(8,380)	
Loss per common share:					
Basic		(0.26)		(0.90)	
Diluted		(0.26)		(0.90)	

SIX MONTHS ENDED SEPTEMBER 30, 20
(UNAUDITED)

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	PREVIOUSLY REPORTED	AS RESTATED	ADJUSTED DISCONTINUED OPERATIONS
	-----	-----	-----
CONSOLIDATED BALANCE SHEET DATA:			
Inventories	44,072	31,894	
Goodwill	21,540	11,271	
Trademarks	--	9,549	
Other assets	4,484	3,818	
Accrued expenses and other current liabilities	8,267	8,255	
Other liabilities	1,082	1,181	
Accumulated retained earnings	13,765	81	
Stockholders' equity	60,910	47,226	

(1) The consolidated statement of operations data and consolidated balance sheet data have been adjusted to reclassify the results of discontinued operating units.

See "Item 4. Controls and Procedures" for a discussion of the actions that we have taken to strengthen our internal controls.

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RESULTS OF OPERATIONS

SPECIAL NOTE REGARDING OUR RESTRUCTURING PROGRAM

AS DESCRIBED BELOW UNDER "RECENT DEVELOPMENTS," WE ARE ENGAGED IN AN ONGOING RESTRUCTURING PROGRAM PURSUANT TO WHICH WE HAVE DISCONTINUED CERTAIN OPERATIONS AND SOLD ASSETS SINCE MARCH 31, 2002 AND MAY, IN THE FUTURE, ENGAGE IN ADDITIONAL SALES OF ASSETS OR STOCK OR OBTAIN OTHER TYPES OF FINANCING. ACCORDINGLY, THE HISTORICAL RESULTS OF OPERATIONS PRESENTED HEREIN ARE UNLIKELY TO BE INDICATIVE OF FUTURE PERFORMANCE.

SPECIAL NOTE REGARDING RESTATEMENT OF OUR PREVIOUSLY ISSUED FINANCIAL STATEMENTS

WE HAVE RESTATED OUR PREVIOUSLY ISSUED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 2001, AND OUR PREVIOUSLY ISSUED FINANCIAL RESULTS FOR EACH OF THE QUARTERLY PERIODS IN THE FISCAL YEAR ENDED MARCH 31, 2001 AND THE FIRST THREE QUARTERS IN THE FISCAL YEAR ENDED MARCH 31, 2002 (COLLECTIVELY, THE "RESTATEMENT PERIOD"). SEE "RESTATEMENT" ABOVE. THE CONSOLIDATED FINANCIAL RESULTS FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2001 INCLUDED IN THIS REPORT AND THE DISCUSSION OF THE RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2001 GIVE EFFECT TO THE RESTATEMENT.

WE INTEND TO FILE A CURRENT REPORT ON FORM 8-K TO PROVIDE RESTATED QUARTERLY FINANCIAL INFORMATION FOR EACH OF THE QUARTERLY PERIODS IN THE RESTATEMENT PERIOD.

YOU SHOULD NOT RELY ON DISCUSSIONS OF RESULTS OF OPERATIONS AND TRENDS AFFECTING OUR BUSINESS FOR THE RESTATEMENT PERIOD THAT APPEAR IN OUR SEC FILINGS MADE PRIOR TO THE FILING OF OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED MARCH 31, 2002.

AS A RESULT OF THE RESTATEMENT, OUR HISTORICAL RESULTS OF OPERATIONS DIFFER SIGNIFICANTLY FROM THOSE CONTAINED IN OUR REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PRIOR TO THE FILING OF OUR ANNUAL REPORT ON FORM 10-K FOR

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THE FISCAL YEAR ENDED MARCH 31, 2002. ACCORDINGLY, YOU SHOULD NOT RELY ON THOSE PREVIOUS DISCUSSIONS OF OUR RESULTS OF OPERATIONS AND TRENDS AFFECTING OUR BUSINESS, SINCE SUCH DISCUSSIONS WERE BASED ON FINANCIAL RESULTS THAT HAVE NOW BEEN RESTATED. WE DO NOT INTEND TO MAKE ADDITIONAL FILINGS TO CORRECT THE HISTORICAL DISCUSSIONS OF RESULTS OF OPERATIONS AND TRENDS AFFECTING OUR BUSINESS.

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

	Three months ended September 30, 2002 (1)	2001 (1) (2)
	-----	-----
Net Sales		
Sensors	56.8%	52.1%
Consumer products	43.2	47.9
	-----	-----
Total net sales	100.0	100.0
Cost of Sales	67.9	75.3
	-----	-----
Gross profit	32.1	24.7
Operating expenses (income)		
Selling, general, and administrative	30.6	36.2
Research and development	1.9	7.2
Customer funded development	(0.2)	(1.8)
Restructuring costs	1.6	--
Interest expense, net	1.9	3.7
Other expenses (income)	(0.6)	0.6
	-----	-----
	35.2	45.9
Loss from continuing operations before income taxes and cumulative effect of accounting change	(3.1)	(21.2)
Income tax benefit	--	0.1
Loss from discontinued units	(0.1)	(1.5)
	-----	-----
Net loss	(3.2)%	(22.6)%
	=====	=====

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	Six months ended September 30, 2002 (1)	2001 (1) (2)
	-----	-----
Net Sales		
Sensors	47.2%	51.3%

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Consumer products	52.8	48.7
	-----	-----
Total net sales	100.0	100.0
Cost of Sales	67.5	74.3
	-----	-----
Gross profit	32.5	25.7
Operating expenses (income)		
Selling, general, and administrative	32.0	32.6
Research and development	2.8	6.0
Customer funded development	(0.6)	(1.8)
Restructuring costs	2.0	--
Interest expense, net	2.4	4.0
Other expenses (income)	(0.5)	0.2
	-----	-----
	38.1	41.0
Loss from continuing operations before income taxes and cumulative effect of accounting change	(5.6)	(15.3)
Income tax benefit	--	0.1
Loss from discontinued units	(6.4)	(1.2)
Cumulative effect of accounting change	--	(0.5)
	-----	-----
Net loss	(12.0)%	(16.9)%
	-----	-----

(1) The consolidated financial statements for the three and six months ended September 30, 2002 include the results of the ongoing operations of Measurement Specialties, Inc. As a result of the restructuring plan, we sold all of the outstanding stock of Terraillon Holdings Limited in September 2002 and placed Measurement Specialties UK Limited (referred to herein as Schaevitz UK) into receivership in June 2002. Accordingly, Terraillon is classified as a discontinued operation in the consolidated financial results for the three and six months ended September 30, 2002, and from its acquisition date in August 2001 through September 30, 2001. Schaevitz UK is classified as a discontinued operation for the three months ended June 30, 2002 and for the three and six months ended September 30, 2001. Schaevitz UK had no activity for the three months ended September 30, 2002. The comparisons above exclude the results of these discontinued operations, except for "Loss from discontinued units," "Cumulative effect of accounting change, net of tax" and "Net income (loss)."

(2) Reflects the restatement of our financial statements for the three and six months ended September 30, 2001. See "Restatement" and Note 3 to our consolidated financial results included in this Quarterly Report on Form 10-Q.

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001

The consolidated financial statements for the three months ended September 30, 2002 include the results of the ongoing operations of Measurement Specialties, Inc. As a result of our restructuring plan, we sold all of the outstanding stock of Terraillon in September 2002 and placed Schaevitz UK into receivership in June 2002. Accordingly, Terraillon is classified as a discontinued operation in the consolidated financial results for the three months ended September 30, 2002, and from its acquisition date in August 2001 through September 30, 2001.

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Schaevitz UK is classified as a discontinued operation for the three months ended September 30, 2001. Schaevitz UK had no activity for the three months ended September 30, 2002.

Net Sales. Net sales increased to \$32,437 for the three months ended September 30, 2002 from \$25,835 for the three months ended September 30, 2001.

Net sales of our Sensor business increased \$1,630, or 13.2%, to \$14,005 for the three months ended September 30, 2002 from \$12,375 for the three months ended September 30, 2001. Sales of microfused pressure transducers increased substantially, with growth in both our original equipment manufacturer business and our Texas Instruments automotive sensor programs. PiezoSensors sales improved as a result of increased sales of traffic sensors and other PiezoSensor products. Sales of Schaevitz products fell due to weakness in the capital goods market, primarily in the power generation segment. There was virtually no change in IC Sensors sales for the three months ended September 30, 2002 as compared to the three months ended September 30, 2001.

Net sales of our Consumer Products business increased \$4,972, or 36.9%, to \$18,432 for the three months ended September 30, 2002 from \$13,460 for the three months ended September 30, 2001. During the three months ended September 30, 2002, \$1,235 of slow moving and obsolete inventory was liquidated, which accounted for 24.8% of the sales improvement. Without this liquidation event, sales increased \$3,737, or 27.8%, to \$17,197 for the three months ended September 30, 2002. The balance of the improved sales was principally the result of a significant increase in sales of tire pressure gauges resulting from heavy seasonal promotional activity and an increase in the sales of bath scales over the prior period. Sales of our other consumer products also improved slightly.

Gross Profit. Gross profit increased \$4,029, or 63.0%, to \$10,423 for the three months ended September 30, 2002 from \$6,394 for the three months ended September 30, 2001. Gross margin increased to 32.1% for the three months ended September 30, 2002 from 24.7% for the three months ended September 30, 2001. Gross margin for our Sensor business increased to 33.3% for the three months ended September 30, 2002 from 22.3% for the three months ended September 30, 2001. This margin improvement was the result of manufacturing cost savings related to the transfer of the production of certain products to our China facility and the favorable impact of restructuring programs which included the sale of the IC Sensors wafer fab and headcount reductions. Gross margin for our Consumer Products business increased to 31.3% for the three months ended September 30, 2002 from 27.1% for the three months ended September 30, 2001. Gross margins for the period ending September 30, 2001 reflect \$1,250 in write-downs of slow moving and obsolete inventory to net realizable value. This write-down was largely comprised of Park Zone inventory.

Selling, General, and Administrative. Selling, general, and administrative expenses increased \$553, or 5.9%, to \$9,917 for the three months ended September 30, 2002 from \$9,364 for the three months ended September 30, 2001. The increase was largely attributable to \$3,169 in consulting and professional fees incurred as a result of defaults under our credit agreement, the restatement of financial statements, the

class action lawsuits and SEC investigation. These increases were partially offset by savings in payroll, facility, and other expenses resulting from our cost reduction activities.

Research and Development. Research and development costs decreased \$1,238, or

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66.3%, to \$630 for the three months ended September 30, 2002 from \$1,868 for the three months ended September 30, 2001. Customer-funded development decreased \$386 to \$70 for the three months ended September 30, 2002 from \$456 for the three months ended September 30, 2001. On a net basis, research and development costs decreased \$852, or 60.3%, to \$560 for the three months ended September 30, 2002 from \$1,412 for the three months ended September 30, 2001. The primary cause of the reduction in research and development spending and customer-funded development was the sale of the IC Sensors wafer fab in July 2002. We do not expect significant customer funded research and development for the remainder of the fiscal year ending March 31, 2003.

Interest Expense, Net. Net interest expense decreased \$337, or 35.0%, to \$625 for the three months ended September 30, 2002 from \$962 for the three months ended September 30, 2001. This decrease is attributable to a \$10,749 reduction in average debt outstanding from \$32,009 in the three months ended September 30, 2001 to \$21,260 in the three months ended September 30, 2002. We expect interest expense to decrease in the future as our average outstanding debt balances decrease.

Income Taxes. We had a pretax loss for financial reporting purposes and have not provided a tax benefit for the three months ended September 30, 2002. Recognition of a deferred tax benefit will require generation of future taxable income; accordingly, no benefit has been provided. We recorded a tax benefit of \$31 for the three months ended September 30, 2001 which relates to refundable income taxes.

Discontinued Operations. As a result of the restructuring plan, we sold all of the outstanding stock of Terrailon in September 2002 and placed Schaevitz UK into receivership in June 2002. The net results for these discontinued units for the three months ended September 30, 2002 was a loss of \$34 compared to a loss of \$397 for the three months ended September 30, 2001.

SIX MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO SIX MONTHS ENDED SEPTEMBER 30, 2001

The consolidated financial statements for the six months ended September 30, 2002 include the results of the ongoing operations of Measurement Specialties, Inc. As a result of our restructuring plan, we sold all of the outstanding stock of Terrailon in September 2002 and placed Schaevitz UK into receivership in June 2002. Accordingly, Terrailon is classified as a discontinued operation in the consolidated financial results for the six months ended September 30, 2002, and from its acquisition date in August 2001 through September 30, 2001. Schaevitz UK is classified as a discontinued operation for the three months ended June 30, 2002 and for the six months ended September 30, 2001. Schaevitz UK had no activity for the three months ended September 30, 2002.

Net Sales. Net sales increased to \$56,083 for the six months ended September 30, 2002 from \$49,536 for the six months ended September 30, 2001.

Net sales of our Sensor business increased \$1,018, or 4.0%, to \$26,444 for the six months ended September 30, 2002 from \$25,426 for the six months ended September 30, 2001. Sales of microfused pressure transducers increased substantially, with growth in both our original equipment manufacturer business and our Texas Instruments automotive sensor programs. PiezoSensors sales improved as a result of increased sales of traffic sensors and other PiezoSensor products. However, this increase was largely offset by lower sales of Schaevitz products due to weakness in the capital goods market, primarily in the power generation segment, and lower sales of IC Sensors products.

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Net sales of our Consumer Products business increased \$5,529, or 22.9%, to \$29,639 for the six months ended September 30, 2002 from \$24,110 for the six months ended September 30, 2001. During the six months ended September 30, 2002, \$1,315 of slow moving and obsolete inventory was liquidated, which accounted for slightly less than one quarter of the sales improvement. Without this liquidation event, sales increased \$4,214, or 17.5%, to \$28,324 for the six months ended September 30, 2002. The balance of the improved sales was principally the result of an increase in sales of tire pressure gauges resulting from heavy seasonal promotional activity and an increase in the sales of bath scales over the prior period. Sales of food scales and distance measurement products increased slightly while sales of fish scales were flat as compared to the six months ended September 30, 2001.

Gross Profit. Gross profit increased \$5,452, or 42.7%, to \$18,207 for the six months ended September 30, 2002 from \$12,755 for the six months ended September 30, 2001. Gross margin increased to 32.5% for the six months ended September 30, 2002 from 25.7% for the six months ended September 30, 2001. Gross margin for our Sensor business increased to 34.9% for the six months ended September 30, 2002 from 25.3% for the six months ended September 30, 2001. This margin improvement was the result of manufacturing cost savings related to the transfer of the production of certain products to our China facility and the favorable impact of restructuring programs including the sale of the IC Sensors wafer fab in July 2002 and headcount reductions. Gross margin for our Consumer Products business increased to 30.3% for the six months ended September 30, 2002 from 26.2% for the six months ended September 30, 2001. Gross margins for the period ended September 30, 2001 reflect \$1,332 in write-downs of slow moving and obsolete inventory to net realizable value. This write-down was largely comprised of Park Zone inventory.

Selling, General, and Administrative. Selling, general, and administrative expenses increased \$1,810, or 11.2%, to \$17,954 for the six months ended September 30, 2002 from \$16,144 for the six months ended September 30, 2001. The increase was largely attributable to \$4,622 in consulting and professional fees incurred as a result of defaults under our credit agreement, the restatement of financial statements, the class action lawsuits and SEC investigation. These increases were partially offset by savings in payroll, facility, and other expenses resulting from our cost reduction activities.

Research and Development. Research and development costs decreased \$1,431, or 47.8%, to \$1,564 for the six months ended September 30, 2002 from \$2,995 for the six months ended September 30, 2001. Customer-funded development decreased \$553 to \$346 for the six months ended September 30, 2002 from \$899 for the six months ended September 30, 2001. On a net basis, research and development costs decreased \$878, or 41.9%, to \$1,218 for the six months ended September 30, 2002 from \$2,096 for the six months ended September 30, 2001. The primary cause of the reduction in research and development spending and customer funded development was the sale of the IC Sensors wafer fab in July 2002. We do not expect significant customer funded research and development for the remainder of the fiscal year ending March 31, 2003.

Interest Expense, Net. Net interest expense decreased \$627, or 31.8%, to \$1,345 for the six months ended September 30, 2002 from \$1,972 for the six months ended September 30, 2001. This decrease is attributable to a \$10,419 reduction in average debt outstanding from \$35,498 in the six months ended September 30, 2001 to \$25,079 in the six months ended September 30, 2002. We expect interest expense to decrease in the future as our average outstanding debt balances decrease.

Income Taxes. We had a pretax loss for financial reporting purposes and have not provided a tax benefit for the six months ended September 30, 2002. Recognition of a deferred tax benefit will require generation of future taxable income.

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Since there can be no assurance that we will generate earnings in future years, we have increased our valuation allowance on deferred tax assets by \$585 to \$13,600 as of

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September 30, 2002. We recorded a tax benefit of \$42 for the six months ended September 30, 2001 which relates to refundable income taxes.

Discontinued Operations. As a result of the restructuring plan, we sold all of the outstanding stock of Terrailon in September 2002 and placed Schaevitz UK into receivership in June 2002. The net results for these discontinued units for the six months ended September 30, 2002 was a loss of \$3,570 compared to a loss of \$608 for the six months ended September 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Operating working capital (accounts receivable plus inventory less accounts payable) increased by \$1,708 from \$15,014 as of March 31, 2002 to \$16,722 as of September 30, 2002. The increase was largely attributable to an increase in accounts receivable of \$6,861 from \$12,220 at March 31, 2002 to \$19,081 at September 30, 2002, partially offset by an increase in accounts payable of \$4,084 from \$13,232 at March 31, 2002 to \$17,316 at September 30, 2002, and a decrease in inventory of \$1,069 from \$16,026 at March 31, 2002 to \$14,957 at September 30, 2002. Accounts payable increased as a result of the normal seasonal spending increase in the consumer segment, as well as extending payment terms with vendors to manage cash. The inventory decline is attributable to improved management of overall inventory levels, including the seasonal increases in the consumer segment and the liquidation of certain slow moving finished goods inventory. Included in accrued expenses and other current liabilities at September 30, 2002 is a \$1,700 advance payment from a customer. Cash provided by operating activities was \$32 for the six months ended September 30, 2002, as compared to a deficit of \$(6,341) for the same period last fiscal year. Capital spending decreased to \$386 for the six months ended September 30, 2002 from \$2,669 for the six months ended September 30, 2001. This decrease resulted in cash flow after capital expenditures of \$(354) for the six months ended September 30, 2002 as compared to \$(9,010) for the six months ended September 30, 2001. Capital spending in the six months ended September 30, 2001 represented a large investment in our Shenzhen, China facility to prepare for the transfer of manufacturing from our domestic facilities to our China facility, as well as capital expenditures for our domestic sensor operations in Hampton, Virginia and Milpitas, California. Capital spending in the six months ended September 30, 2002 was restricted to maintenance and critical tooling primarily due to liquidity constraints. Other investing activities for the six months ended September 30, 2002 provided \$20,738, consisting of \$3,300 in net proceeds from the sale of the IC Sensor wafer fab, \$16,668 from the sale of Terrailon and \$770 received from the receiver for Schaevitz UK. Financing activities for the six months ended September 30, 2002 consumed \$19,806, consisting primarily of the repayment of debt. For the six months ended September 30, 2002, we generated cash of \$578 from continuing operations, used \$1,860 in connection with discontinued operations and recognized \$369 as a result of the effect of favorable exchange rates, resulting in a net decrease in cash of \$913 as compared to March 31, 2002.

Our Credit Agreement

Measurement Specialties and Schaevitz UK were the borrowers under an Amended and Restated Revolving Credit, Term Loan and Security Agreement dated February 28, 2001, as amended (the "credit agreement"), among Wachovia Bank, National

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Association (formerly known as First Union National Bank) as lender and agent, JP Morgan Chase Bank as lender and Fleet National Bank as lender (First Union, Chase and Fleet are hereafter referred to as the "lenders"). Our obligations under the credit agreement were secured by a lien on substantially all of our assets.

The loans outstanding under the credit agreement as of September 30, 2002 were a revolving credit line with an amount outstanding of approximately \$3,082 and a term loan in the amount of \$6,164. All amounts outstanding under the revolving credit agreement and term loan were repaid on October 31,

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2002, as more fully described below under "Repayment of Our Obligations under the Forbearance Agreement."

Events of Default under the Credit Agreement

Because of our inability to comply with certain financial covenants contained in the credit agreement, events of default occurred under the credit agreement. We sought, but did not obtain, a waiver of such events of default from the lenders.

The occurrence of the events of default under the credit agreement gave the lenders the right to require immediate repayment of all amounts outstanding under the credit agreement and exercise their remedies as a secured creditor, including taking immediate possession of all of our assets and requiring our customers to pay all amounts owed to us directly to them. As a result of the defaults under our credit agreement and the lenders' consequent right to accelerate the loans, we were required to classify the long-term portion of our debt to current. The consolidated financial results included in this Quarterly Report on Form 10-Q reflect this reclassification.

Forbearance Agreement

On July 2, 2002, we signed an agreement with our lenders pursuant to which the lenders agreed to forbear from exercising the rights and remedies available to them under the credit agreement as a result of our defaults until the earliest of (i) November 1, 2002, (ii) our breach or violation of the provisions of the forbearance agreement, (iii) the institution of bankruptcy proceedings under the federal bankruptcy laws, or (iv) the occurrence of additional defaults under the credit agreement (the time period between July 2, 2002 and the termination of the lenders' obligation to forbear from the exercise of their rights is referred to herein as the "forbearance period"). We were required under the forbearance agreement to, among other things, comply with certain strict financial covenants, actively seek purchasers for certain of our assets, continue to make required term loan payments, pledge certain unencumbered assets in favor of the lenders and issue to the lenders warrants to purchase up to 4.99% of our common stock. Half of these warrants were canceled when we repaid certain obligations as required prior to October 1, 2002 and the balance of the warrants were canceled when we repaid all amounts outstanding under the credit agreement on October 31, 2002, as more fully described below. The forbearance agreement also provided that the interest rate for our borrowings was equal to the lenders' prime rate plus 3%, which rate was subject to a 2% increase in the event of a default under the forbearance agreement.

In connection with the execution of the forbearance agreement, the lenders agreed to extend additional credit under our revolving credit facility (as more fully described below), as well as to allow us to apply the proceeds from the sale/liquidation of certain assets against amounts outstanding under the

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revolving credit facility (rather than against amounts outstanding under the term loan as otherwise required by the credit agreement).

Available Credit under the Revolving Credit Facility during the Forbearance Period

As of the consummation of our sale of Terrailon in September 2002, the maximum available credit under the revolving credit facility during the forbearance period was \$13,500 or such lesser amount