SOLIGENIX, INC.
Form 10-Q
August 08, 2018

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the Quarterly Period Ended June 30, 2018**

or

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

For the transition period from _____ to _____

Commission File No. 000-16929

_____

**SOLIGENIX, INC.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **DELAWARE**<br>(State or other jurisdiction of incorporation or organization) | **41-1505029**<br>(I.R.S. Employer Identification Number) |
| **29 EMMONS DRIVE, SUITE B-10 PRINCETON, NJ**<br>(Address of principal executive offices) | **08540**<br>(Zip Code) |

**(609) 538-8200**
(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 of 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | |
|---|---|---|
| Large accelerated filer | | Accelerated filer |
| Non-accelerated filer | (Do not check if a smaller reporting company) | Smaller reporting company |
| | | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 3, 2018, 17,682,839 shares of the registrant’s common stock (par value, $.001 per share) were outstanding.

**SOLIGENIX, INC.**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1 - Financial Statements**

**Soligenix, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $4,244,871 | $7,809,487 |
| Contract and grants receivable | 1,530,735 | 926,251 |
| Prepaid expenses | 122,898 | 263,254 |
| Income tax receivable | - | 416,810 |
| Total current assets | 5,898,504 | 9,415,802 |
| Security deposit | 22,734 | 22,734 |
| Office furniture and equipment, net | 30,210 | 37,163 |
| Deferred offering costs | 140,246 | - |
| Intangible assets, net | 60,445 | 73,952 |
| Total assets | $6,152,139 | $9,549,651 |
| | | |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable | $1,686,467 | $1,753,614 |
| Accrued expenses | 1,729,905 | 1,143,306 |
| Deferred revenue | 56,692 | - |
| Accrued compensation | 56,116 | 333,019 |
| Total current liabilities | 3,529,180 | 3,229,939 |
| Commitments and contingencies | | |
| | | |
| Shareholders' equity: | | |
| Preferred stock, 350,000 shares authorized; none issued or outstanding | - | - |
| Common stock, $.001 par value; 25,000,000 shares authorized ; 8,750,801 shares and 8,730,640 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively | 8,751 | 8,731 |
| Additional paid-in capital | 163,817,801 | 163,581,026 |
| Accumulated deficit | (161,203,593) | (157,270,045) |
| Total shareholders' equity | 2,622,959 | 6,319,712 |

| | | |
|---|---|---|
| Total liabilities and shareholders' equity | $6,152,139 | $9,549,651 |

The accompanying notes are an integral part of these consolidated financial statements.

**Soligenix, Inc. and Subsidiaries**

**Consolidated Statements of Operations**

**For the Three and Six Months Ended June 30, 2018 and 2017**

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Contract revenue | $1,367,574 | $990,971 | $2,144,858 | $2,321,855 |
| Grant revenue | 357,971 | - | 700,460 | - |
| Total revenues | 1,725,545 | 990,971 | 2,845,318 | 2,321,855 |
| Cost of revenues | (1,493,676) | (677,167) | (2,472,597) | (1,764,482) |
| Gross profit | 231,869 | 313,804 | 372,721 | 557,373 |
| Operating expenses: | | | | |
| Research and development | 1,170,333 | 1,783,714 | 2,973,693 | 3,001,254 |
| General and administrative | 650,826 | 846,919 | 1,382,419 | 1,611,138 |
| Total operating expenses | 1,821,159 | 2,630,633 | 4,356,112 | 4,612,392 |
| Loss from operations | (1,589,290) | (2,316,829) | (3,983,391) | (4,055,019) |
| Interest income, net | 32,948 | 5,231 | 49,843 | 9,984 |
| Net loss | $(1,556,342) | $(2,311,598) | $(3,933,548) | $(4,045,035) |
| Basic net loss per share | $(0.18) | $(0.41) | $(0.45) | $(0.73) |
| Diluted net loss per share | $(0.18) | $(0.41) | $(0.45) | $(0.73) |
| Basic weighted average common shares outstanding | 8,742,569 | 5,601,879 | 8,738,728 | 5,537,164 |
| Diluted weighted average common shares outstanding | 8,742,569 | 5,601,879 | 8,738,728 | 5,537,164 |

The accompanying notes are an integral part of these consolidated financial statements.

**Soligenix, Inc. and Subsidiaries**

**Consolidated Statement of Changes in Shareholders' Equity**

**For the Six Months Ended June 30, 2018**

**(Unaudited)**

| | Common Stock | | Additional Paid-In | Accumulated | |
|---|---|---|---|---|---|
| | Shares | Par Value | Capital | Deficit | Total |
| Balance, December 31, 2017 | 8,730,640 | $8,731 | $163,581,026 | $(157,270,045) | $6,319,712 |
| Issuance of common stock pursuant to Lincoln Park Equity Line | 20,161 | 20 | 38,380 | - | 38,400 |
| Share-based compensation expense | - | - | 198,395 | - | 198,395 |
| Net loss | - | - | - | (3,933,548) | (3,933,548) |
| Balance, June 30, 2018 | 8,750,801 | $8,751 | $163,817,801 | $(161,203,593) | $2,622,959 |

The accompanying notes are an integral part of these consolidated financial statements.

**Soligenix, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

**For the Six Months Ended June 30,**

**(Unaudited)**

| | 2018 | 2017 |
|---|---|---|
| Operating activities: | | |
| Net loss | $(3,933,548) | $(4,045,035) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Amortization and depreciation | 22,384 | 39,671 |
| Share-based compensation | 198,395 | 240,674 |
| Issuance of common stock for services | - | 5,925 |
| | | |
| Change in operating assets and liabilities: | | |
| Contract and grants receivable | (604,484) | 491,884 |
| Income tax receivable | 416,810 | - |
| Prepaid expenses | 140,356 | 5,356 |
| Accounts payable and accrued expenses | 379,206 | 579,756 |
| Accrued compensation | (276,903) | (297,904) |
| Deferred revenue | 56,692 | - |
| Total adjustments | 332,456 | 1,065,362 |
| Net cash used in operating activities | (3,601,092) | (2,979,673) |
| | | |
| Investing activities: | | |
| Purchases of office furniture and equipment | (1,924) | (2,131) |
| Net cash used in investing activities | (1,924) | (2,131) |
| | | |
| Financing activities: | | |
| Proceeds from issuance of common stock pursuant to the equity line | 38,400 | 23,100 |
| Net cash provided by financing activities | 38,400 | 23,100 |
| | | |
| Net decrease in cash and cash equivalents | (3,564,616) | (2,958,704) |
| Cash and cash equivalents at beginning of period | 7,809,487 | 8,772,567 |
| Cash and cash equivalents at end of period | $4,244,871 | $5,813,863 |
| | | |
| Supplemental disclosure of non cash financing activity: | | |
| Accrued deferred issuance costs | $140,246 | - |

The accompanying notes are an integral part of these consolidated financial statements.

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**Soligenix, Inc.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**Note 1. Nature of Business**

Basis of Presentation

Soligenix, Inc. (the "Company") is a late-stage biopharmaceutical company focused on developing and commercializing products to treat rare diseases where there is an unmet medical need. The Company maintains two active business segments: BioTherapeutics and Vaccines/BioDefense.

The Company's BioTherapeutics business segment is developing a novel photodynamic therapy (SGX301) utilizing topical synthetic hypericin activated with safe visible fluorescent light for the treatment of cutaneous T-cell lymphoma ("CTCL"), its first-in-class innate defense regulator ("IDR") technology, dusquetide (SGX942) for the treatment of oral mucositis in head and neck cancer, and proprietary formulations of oral beclomethasone 17,21-dipropionate ("BDP") for the prevention/treatment of gastrointestinal ("GI") disorders characterized by severe inflammation, including pediatric Crohn's disease (SGX203) and acute radiation enteritis (SGX201).

The Company's Vaccines/BioDefense business segment includes active development programs for RiVax®, its ricin toxin vaccine candidate, OrbeShield®, a GI acute radiation syndrome ("GI ARS") therapeutic candidate and SGX943, a therapeutic candidate for antibiotic resistant and emerging infectious disease. The development of the vaccine program is currently supported by the heat stabilization technology, known as ThermoVax®, under existing and on-going government contract funding. With the government contract from the National Institute of Allergy and Infectious Diseases ("NIAID"), the Company will attempt to advance the development of RiVax® to protect against exposure to ricin toxin. The Company has advanced the development of OrbeShield® for the treatment of GI ARS with funds received under our awarded government contracts with the Biomedical Advanced Research and Development Authority ("BARDA") and NIAID. The Company will continue to pursue additional government funding support.

The Company generates revenues under government grants primarily from the National Institutes of Health ("NIH") and government contracts from BARDA and NIAID. The Company is currently developing RiVax® under a NIH contract of up to $24.7 million, and SGX301 and SGX942 under two separate NIH grants of approximately $1.5 million each

over two years. The NIAID contract for the development of OrbeShield® and the base period of the BARDA contract for the development of OrbeShield® were completed during the first quarter of 2017. BARDA elected not to extend the current contract beyond the base period. The Company will continue to apply for additional government funding.

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, development of new technological innovations, dependence on key personnel, protections of proprietary technology, compliance with the United States Food and Drug Administration ("FDA") regulations, and other regulatory authorities, litigation, and product liability. Results for the six months ended June 30, 2018 are not necessarily indicative of results that may be expected for the full year.

Liquidity

In accordance with Accounting Standards Codification 205-40, Going Concern, the Company has evaluated whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the consolidated financial statements are issued. As of June 30, 2018, the Company had an accumulated deficit of $161,203,593. During the six months ended June 30, 2018, the Company incurred a net loss of $3,933,548 and used $3,601,092 of cash in operations. The Company expects to continue to generate losses in the foreseeable future. The Company's liquidity needs will be largely determined by the budgeted operational expenditures incurred in regards to the progression of its product candidates. The Company's plans to meet its liquidity needs primarily include its ability to control the timing and spending on its research and development programs and raising additional funds through potential partnership and/or financings. Based on the Company's operating budget, current rate of cash outflows, cash on hand (inclusive of the proceeds from the Company's July 2018 public offering – see Note 9), proceeds from government contract and grant programs, proceeds available from the equity line with Lincoln Park Capital Fund, LLC ("Lincoln Park"), and proceeds from the State of New Jersey Technology Business Tax Certificate Transfer Program, management believes that its current cash will be sufficient to meet the anticipated cash needs for working capital and capital expenditures for at least the next 12 months from issuance of the financial statements. On July 2, 2018, the Company completed a public offering of its common stock and warrants. Total gross proceeds from the offering, including the exercise of the underwriters over-allotment option, was approximately $9.2 million. See Note 9.

As of June 30, 2018, the Company had cash and cash equivalents of $4,244,871 as compared to $7,809,487 as of December 31, 2017, representing a decrease of $3,564,616 or 46%. As of June 30, 2018, the Company had working capital of $2,369,324 as compared to working capital of $6,185,863 as of December 31, 2017, representing a decrease of $3,816,539 or 62%. The decrease in cash and working capital was primarily related to expenditures to support the pivotal Phase 3 clinical trial of SGX301 for the treatment of CTCL and expenditures incurred in the pivotal Phase 3 clinical trial of SGX942 for the treatment of oral mucositis in head and neck cancer, including the expansion of the Phase 3 trial of SGX942 to select European study sites.

Management's business strategy can be outlined as follows:

- Complete enrollment and report preliminary results in the Company's pivotal Phase 3 clinical trial of SGX301 for the treatment of CTCL;
- Continue enrollment of the pivotal Phase 3 clinical trial of SGX942 for the treatment of oral mucositis in head and neck cancer, including the expansion of the Phase 3 trial of SGX942 to select European study sites;
- Continue development of RiVax® in combination with the Company's ThermoVax® technology to develop a new heat stable vaccine in biodefense with NIAID funding support;
- Continue to apply for and secure additional government funding for each of the Company's BioTherapeutics and Vaccines/BioDefense programs through grants, contracts and/or procurements;

Pursue business development opportunities for the Company's pipeline programs, as well as explore merger/acquisition strategies; and
Acquire or in-license new clinical-stage compounds for development.

The Company's plans with respect to its liquidity management include, but are not limited to, the following:

The Company has up to $17.3 million in active government contract and grant funding still available to support its associated research programs through 2018 and beyond, provided the federal agencies exercise all options and do not elect to terminate the contracts or grants for convenience. The Company plans to submit additional contract and grant applications for further support of its programs with various funding agencies;
The Company has continued to use equity instruments to provide a portion of the compensation due to vendors and collaboration partners and expects to continue to do so for the foreseeable future;
The Company will pursue Net Operating Loss ("NOL") sales in the state of New Jersey pursuant to its Technology Business Tax Certificate Transfer Program. Based on the receipt in 2018 of $416,810 in proceeds from the sale of NJ NOL in 2017, the Company expects to participate in the program for the year ending December 31, 2018 and beyond as long as the program is available;

The Company plans to pursue potential partnerships for its pipeline programs. However, there can be no assurances that the Company can consummate such transactions;
The Company has $10.1 million available from an equity facility expiring in March 2019; and
The Company may seek additional capital in the private and/or public equity markets, to continue its operations, respond to competitive pressures, develop new products and services, and to support new strategic partnerships. The Company is evaluating additional equity/debt financing opportunities on an ongoing basis and may execute them when appropriate. However, there can be no assurances that the Company can consummate such a transaction, or consummate a transaction at favorable pricing.
In July 2018, the Company received total gross proceeds from an at the market public offering of its common stock and warrants of $9.2 million, before deducting underwriting discounts and commissions and other estimated expenses. The Company plans to use the proceeds to support the two pivotal Phase 3 clinical trials of SGX301 and SGX942, as well as for working capital.

**Note 2. Summary of Significant Accounting Policies**

Principles of Consolidation

The consolidated financial statements include Soligenix, Inc., and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated as a result of consolidation.

Operating Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing the performance of the segment. The Company divides its operations into two operating segments: BioTherapeutics and Vaccines/BioDefense.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Contract and Grants Receivable

Contract and grants receivable consist of amounts due from various grants from the NIH and contracts from NIAID, an institute of NIH, for costs incurred prior to the period end under reimbursement contracts. The amounts were billed to the respective governmental agencies in the month subsequent to period end and collected shortly thereafter. Accordingly, no allowance for doubtful amounts has been established. If amounts become uncollectible, they are charged to operations.

Intangible Assets

One of the most significant estimates or judgments that the Company makes is whether to capitalize or expense patent and license costs. The Company makes this judgment based on whether the technology has alternative future uses, as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 730, *Research and Development*. Based on this consideration, the Company capitalizes payments made to legal firms that are engaged in filing and protecting rights to intellectual property and rights for its current products in both the domestic and international markets. The Company believes that patent rights are one of its most valuable assets. Patents and patent applications are a key component of intellectual property, especially in the early stage of product development, as their purchase and maintenance gives the Company access to key product development rights from Soligenix's academic and industry partners. These rights can also be sold or sub-licensed as part of its strategy to partner its products at each stage of development as the intangible assets have alternative future use. The legal costs incurred for these patents consist of work associated with filing new patents designed to protect, preserve and maintain the Company's rights, and perhaps extend the lives of the patents. The Company capitalizes such costs and amortizes intangibles on a straight-line basis over their expected useful life – generally a period of 11 to 16 years.

The Company did not capitalize any patent related costs during the six months ended June 30, 2018 and 2017.

Impairment of Long-Lived Assets

Office furniture and equipment and intangible assets with finite lives are evaluated and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company recognizes impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and the carrying value of the related asset or group of assets. Such analyses necessarily involve significant judgment.

The Company did not record any impairment of long-lived assets for the six months ended June 30, 2018 and 2017.

Fair Value of Financial Instruments

FASB ASC 820 — *Fair Value Measurements and Disclosures,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement

date. FASB ASC 820 requires disclosures about the fair value of all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about the fair value of financial instruments are based on pertinent information available to the Company on June 30, 2018. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments.

FASB ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities.

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models consider various assumptions, including volatility factors, current market prices and contractual prices for the underlying financial instruments. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 — Unobservable inputs for the asset or liability. Financial instruments are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable.

The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents, contract and grants receivable, accounts payable, accrued expenses, and accrued compensation approximate their fair value based on the short-term maturity of these instruments.

Deferred Offering Costs

The Company capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financings as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded in shareholders' equity as a reduction of additional paid-in capital generated as a result of the offering.

Revenue Recognition

The Company's revenues are primarily generated from government contracts and grants. The revenue from government contracts and grants is based upon subcontractor costs and internal costs incurred that are specifically covered by the contracts and grants, plus a facilities and administrative rate that provides funding for overhead expenses and management fees. These revenues are recognized when expenses have been incurred by subcontractors or when the Company incurs reimbursable internal expenses that are related to the government contracts and grants.

Research and Development Costs

Research and development costs are charged to expense when incurred in accordance with FASB ASC 730, *Research and Development*. Research and development includes costs such as clinical trial expenses, contracted research and license agreement fees with no alternative future use, supplies and materials, salaries, share-based compensation, employee benefits, equipment depreciation and allocation of various corporate costs. Purchased in-process research and development expense represents the value assigned or paid for acquired research and development for which there is no alternative future use as of the date of acquisition.

Share-Based Compensation

Stock options are issued with an exercise price equal to the market price on the date of grant. Stock options issued to directors upon re-election vest quarterly for a period of one year (new director issuances are fully vested upon issuance). Stock options issued to employees generally vest 25% on the grant date, then 25% each subsequent year for a period of three years. These options have a ten year life for as long as the individuals remain employees or directors. In general, when an employee or director terminates their position, the options will expire within three months, unless otherwise extended by the Board.

From time to time, the Company issues restricted shares of common stock to vendors and consultants as compensation for services performed. Typically these instruments vest upon issuance and therefore the entire share-based compensation expense is recognized upon issuance to the vendors and/or consultants.

Share-based compensation expense for options, warrants and shares of common stock granted to non-employees has been determined in accordance with FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, and represents the fair value of the consideration received, or the fair value of the equity instruments issued, whichever may be more reliably measured. For options that vest over future periods, the fair value of options granted to non-employees is amortized as the options vest. The fair value is remeasured each reporting period until performance is complete.

For the six months ended June 30, 2018 and 2017, the Company issued stock options at a weighted average exercise price of $1.59 and $2.55 per share, respectively. The fair value of options issued during the six months ended June 30, 2018 and 2017 were estimated using the Black-Scholes option-pricing model and the following assumptions:

a dividend yield of 0%;
an expected term of 4 years;
volatility of 91% for 2018 and 90 - 93% for 2017;
forfeitures at a rate of 12%; and
risk-free interest rates ranging from 2.68% - 2.85% for 2018 and 1.60% - 1.81% for 2017.

The fair value of each option grant made during 2018 and 2017 was estimated on the date of each grant using the Black-Scholes option pricing model and is amortized ratably over the option vesting periods, which approximates the service period.

Income Taxes

On December 22, 2017, the United States (“U.S.”) government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act significantly revises U.S. corporate income taxation by, among other things, lowering the U.S. corporate income tax rate from 35.0% to 21.0% effective January 1, 2018. The Company does not anticipate any impact to the tax provision due to the full valuation allowance on its deferred tax assets and believes that the most significant impact on its consolidated financial statements was the reduction of approximately $14 million for the deferred tax assets related to net operating losses and other assets. Such reduction was fully offset by changes to the Company’s valuation allowance.

In December 2017, the U.S. Securities and Exchange Commission (the “SEC”) issued Staff Accounting Bulletin 118, which allows a measurement period, not to exceed one year, to finalize the accounting for the income tax impacts of the Tax Act. Until the accounting for the income tax impacts of the Tax Act is complete, the reported amounts are based on reasonable estimates, are disclosed as provisional and reflect any adjustments in subsequent periods as the Company refines its estimates or completes its accounting of such tax effects.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. A review of all available positive and negative evidence is considered, including the Company's current and past performance, the market environment in which the Company operates, the utilization of past tax credits, and the length of carryback and carryforward periods. Deferred tax assets and liabilities are measured utilizing tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. No current or deferred income taxes have been provided through June 30, 2018 due to the net operating losses incurred by the Company since its inception. The Company recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of the income tax provision. There were no tax related interest and penalties recorded for the periods ended June 30, 2018 or 2017. Additionally, the Company has not recorded an asset for unrecognized tax benefits or a liability for uncertain tax positions at June 30, 2018 and December 31, 2017.

Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity. Since there is a significant number of options and warrants outstanding, fluctuations in the actual market price can have a variety of results for each period presented.

The following table summarizes potentially dilutive adjustments to the weighted average number of common shares which were excluded from the calculation because their effect would be anti-dilutive.

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Common stock purchase warrants | 2,575,988 | 2,603,575 | 2,575,988 | 2,603,575 |
| Stock options | 761,855 | 520,055 | 761,855 | 520,055 |
| Total | 3,337,843 | 3,123,630 | 3,337,843 | 3,123,630 |

The weighted average exercise price of the Company's stock options and warrants outstanding at June 30, 2018 were $7.25 and $4.38 per share, respectively, and at June 30, 2017 were $11.34 and $4.45 per share, respectively.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions such as the fair value of warrants and stock options and recovery of the useful life of intangibles that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is evaluating the impact of the adoption of this update on its consolidated financial statements and related disclosures.

In July 2017, the FASB issued ASU No. 2017-11, *(Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. The new standard applies to issuers of financial instruments with down-round features. A down-round provision is a term in an equity-linked financial instrument (i.e. a freestanding warrant contract or an equity conversion feature embedded within a host debt or equity contract) that triggers a downward adjustment to the instrument’s strike price (or conversion price) if equity shares are issued at a lower price (or equity-linked financial instruments are issued at a lower strike price) than the instrument’s then-current strike price. The purpose of the feature is typically to protect the instrument’s counterparty from future issuances of equity shares at a more favorable price. The ASU amends (1) the classification of such instruments as liabilities or equity by revising the certain guidance relative to evaluating if they must be accounted for as derivative instruments and (2) the guidance on recognition and measurement of freestanding equity-classified instruments. For the Company, this ASU is effective January 1, 2019, with early adoption permitted. The Company is evaluating the impact of the adoption of this update on its consolidated financial statements and related disclosures, and an analysis is expected to be completed in the first quarter of 2019.

In June 2018, the FASB issued ASU No. 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The FASB issued this update with the intention of reducing cost and complexity and to improve financial reporting for share-based payments issued to nonemployees. The ASU expands the scope of Topic 718, which currently only includes share-based payments issued to employees, to also include share-based payments issued to nonemployees for goods and services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company is evaluating the impact of the adoption of this update on its consolidated financial statements and related disclosures.

**Note 3. Intangible Assets**

The following is a summary of intangible assets which consists of licenses and patents:

| | Cost | **Accumulated Amortization** | Net Book Value |
|---|---|---|---|
| June 30, 2018 | | | |
| Licenses | $462,234 | $ 401,789 | $60,445 |
| Patents | 1,893,185 | 1,893,185 | - |
| Total | $2,355,419 | $ 2,294,974 | $60,445 |
| December 31, 2017 | | | |
| Licenses | $462,234 | $ 388,282 | $73,952 |
| Patents | 1,893,185 | 1,893,185 | - |
| Total | $2,355,419 | $ 2,281,467 | $73,952 |

Amortization expense was $6,791 and $15,509 for the three months ended June 30, 2018 and 2017, respectively, and $13,507 and $30,847 for the six months ended June 30, 2018 and 2017, respectively.

Based on the balance of licenses and patents at June 30, 2018, future amortization expense is expected to be as follows:

| | Amortization Expense |
|---|---|
| July 1 thru December 31, 2018 | $ 20,389 |
| 2019 | $ 40,056 |

License fees and royalty payments are expensed as incurred as the Company does not attribute any future benefits to such payments.

**Note 4. Accrued Expenses**

The following is a summary of the Company's accrued expenses:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Clinical trial expenses | $1,588,393 | $ 1,011,666 |
| Other | 141,512 | 131,640 |
| Total | $1,729,905 | $ 1,143,306 |

**Note 5. Income Taxes**

The Company had gross NOLs at December 31, 2017 of approximately $99,402,000 for federal tax purposes and approximately $5,766,000 of New Jersey NOL carry forwards remaining after the sale of unused net operating loss carry forwards, portions of which will begin to expire in 2018. In addition, the Company has $8,000,000 of various tax credits which expire from 2018 to 2035. The Company may be able to utilize its NOLs to reduce future federal and state income tax liabilities. However, these NOLs are subject to various limitations under Internal Revenue Code ("IRC") Section 382. IRC Section 382 limits the use of NOLs to the extent there has been an ownership change of more than 50 percentage points. In addition, the NOL carry forwards are subject to examination by the taxing authority and could be adjusted or disallowed due to such exams. Although the Company has not undergone an IRC Section 382 analysis, it is likely that the utilization of the NOLs may be substantially limited.

The Company and one or more of its subsidiaries file income tax returns in the U.S. Federal jurisdiction, and various state and local jurisdictions. During the year ended December 31, 2017, in accordance with the State of New Jersey's Technology Business Tax Certificate Program, which allowed certain high technology and biotechnology companies to sell unused NOL carry forwards to other New Jersey-based corporate taxpayers, the Company sold New Jersey NOL carry forwards, resulting in the recognition of $416,810 of income tax benefit, net of transaction costs. There can be no assurance as to the continuation or magnitude of this program in the future.

The Company has no tax provision for the three and six month periods ended June 30, 2018 and 2017 due to losses incurred and the recognition of full valuation allowances recorded against net deferred tax assets.

**Note 6. Shareholders' Equity**

Preferred Stock

The Company has 350,000 shares of preferred stock authorized, none of which are issued or outstanding.

Common Stock

During the six months ended June 30, 2018, the Company issued the following shares of common stock:

On February 21, 2018, the Company issued 10,083 shares of common stock pursuant to the equity line with Lincoln Park.
On April 6, 2018 the Company issued 10,078 shares of common stock pursuant to the equity line with Lincoln Park.

In March 2016, the Company entered into a common stock purchase agreement with Lincoln Park. The 2016 Lincoln Park equity facility allows the Company to require Lincoln Park to purchase up to 10,000 shares ("Regular Purchase") of the Company's common stock every two business days, up to an aggregate of $12.0 million over approximately a 36-month period with such amounts increasing as the quoted stock price increases. The Regular Purchase may be increased up to 15,000 shares of common stock if the closing price of the common shares is not below $10.00, up to 20,000 shares of common stock if the closing price of the common shares is not below $15.00 and up to 25,000 shares of common stock if the closing price of the common shares is not below $20.00. The purchase price for the Regular Purchase shall be equal to the lesser of (i) the lowest sale price of the common shares during the purchase date, or (ii) the average of the three lowest closing sale prices of the common shares during the 12 business days prior to the purchase date. Each Regular Purchase shall not exceed $750,000. Furthermore, for each purchase by Lincoln Park, additional commitment shares in commensurate amounts up to a total of 50,000 shares will be issued based upon the relative proportion of the aggregate amount of $12.0 million. In addition to the Regular Purchase and provided that the closing price of the common shares is not below $7.50 on the purchase date, the Company in its sole discretion may direct Lincoln Park on each purchase date to purchase on the next stock trading day ("Accelerated Purchase Date") additional shares of Company stock up to the lesser of (i) three times the number of shares purchased following a Regular Purchase or (ii) 30% of the trading volume of shares traded on the Accelerated Purchase Date at a price equal to the lesser of the closing sale price on the Accelerated Purchase Date or 95% of the Accelerated Purchase Date's volume weighted average price. At June 30, 2018, the Company has $10.1 million available from this equity line which expires in March 2019.

FBR Agreement and Common Stock Offerings

On August 11, 2017, the Company entered into an At Market Issuance Sales Agreement with FBR Capital Markets & Co. ("FBR") to sell shares of the Company's common stock, with aggregate gross proceeds of up to $4,800,000, from time to time, through an "at-the-market" equity offering program under which FBR acts as sales agent. Under the Sales Agreement, the Company set the parameters for the sale of shares, including the number of shares to be issued, the time period during which sales were requested to be made, limitation on the number of shares that may be sold in any one trading day and any minimum price below which sales may not be made. The Sales Agreement provided that FBR was entitled to compensation for its services in an amount equal to 3% of the gross proceeds from the sale of shares sold under the Sales Agreement. The offering costs incurred to register the shares pursuant to the Sales Agreement were $164,825. The Company had no obligation to sell any shares under the Sales Agreement, and could suspend solicitation and offers under the Sales Agreement. The shares were issued pursuant to the Company's shelf registration statement on Form S-3 and the Prospectus Supplement filed August 11, 2017 with the SEC in connection with the offer and sale of the shares pursuant to the Sales Agreement. The shares were issued pursuant to General Instruction I.B.6 of Form S-3, which permits the Company to sell shelf securities in a public primary offering with a value not exceeding one-third of the average market value of the Company's voting and non-voting common equity held by non-affiliates in any 12-month period as long as the aggregate market value of the Company's outstanding voting and non-voting common equity held by non-affiliates is less than $75 million. Currently no more shares may be sold under the Prospectus Supplement filed on August 11, 2017 because the Company has issued the maximum amount of shares permitted to be sold under General Instruction I.B.6 of Form S-3. With the passage of time or the fluctuation of the aggregate market value of the Company's voting and non-voting common equity held by non-affiliates, the Company anticipates that it will again be permitted to issue shares in reliance on General Instruction I.B.6 of Form S-3.

On November 3, 2017, the Company issued 1,575,500 shares of common stock at a purchase price of $2.00 per share in a registered direct offering and 982,000 shares of common stock at a purchase price of $2.00 per share in a concurrent private placement. In connection with the concurrent registered public offering and the private placement, warrants to purchase 51,151 shares of the Company's common stock were issued to representatives of the underwriters of the offering. The warrants are exercisable at $2.50 per share of common stock underlying the warrants for a four-year period commencing six months from the effective date of the offering. Gross proceeds to the Company from these offerings were approximately $5,115,000 before deducting placement agent fees and other estimated offering expenses payable by the Company.

**Note 7. Commitments and Contingencies**

The Company has commitments of approximately $450,000 as of June 30, 2018 for several licensing agreements with consultants and universities. Additionally, the Company has collaboration and license agreements, which upon clinical or commercialization success, may require the payment of milestones of up to $7.9 million and/or royalties up to 6% of net sales of covered products, if and when achieved. However, there can be no assurance that clinical or commercialization success will occur. During the quarter ended June 30, 2018, approximately $197,000 was paid to

the University of British Columbia as a milestone payment, which was accrued for at December 31, 2017.

The Company currently leases approximately 6,200 square feet of office space at 29 Emmons Drive, Suite B-10 in Princeton, New Jersey pursuant to a lease that was amended in October 2017 and expires in October 2020. This office space currently serves as the Company's corporate headquarters. The rent for the first 12 months is approximately $11,367 per month, or approximately $22.00 per square foot. The rent will increase to approximately $11,625 per month, or approximately $22.50 per square foot, for the next 12 months and increase to approximately $11,883 per month, or approximately $23.00 per square foot for the remainder of the lease.

On September 3, 2014, the Company entered into an asset purchase agreement with Hy Biopharma, Inc. ("Hy Biopharma") pursuant to which the Company acquired certain intangible assets, properties and rights of Hy Biopharma related to the development of Hy BioPharma's synthetic hypericin product. As consideration for the assets acquired, the Company paid $275,000 in cash and issued 184,912 shares of common stock with a fair value based on the Company's stock price on the date of grant of $3,750,000. These amounts were charged to research and development expense during the third quarter of 2014 as the assets will be used in the Company's research and development activities and do not have alternative future use pursuant to generally accepted accounting principles in the U.S. Provided all future success-oriented milestones are attained, the Company will be required to make additional payments of up to $10.0 million, if and when achieved. Payments will be payable in restricted securities of the Company provided they do not exceed 19.9% ownership of the Company's outstanding stock. As of June 30, 2018, no milestones or royalty payments have been paid or accrued.

In February 2007, the Company's Board of Directors authorized the issuance of 5,000 shares of the Company's common stock to Dr. Schaber immediately prior to the completion of a transaction, or series or a combination of related transactions, negotiated by its Board of Directors whereby, directly or indirectly, a majority of its capital stock or a majority of its assets are transferred from the Company and/or its stockholders to a third party. Dr. Schaber's amended employment agreement includes the Company's obligation to issue such shares if such event occurs.

As a result of the above agreements, the Company has future contractual obligations over the next five years as follows:

| Year | **Research and Development** | **Property and Other Leases** | Total |
|---|---|---|---|
| July 1 through December 31, 2018 | $ 50,000 | $ 72,989 | $122,989 |
| 2019 | 100,000 | 148,561 | 248,561 |
| 2020 | 100,000 | 127,377 | 227,377 |
| 2021 | 100,000 | 5,696 | 105,696 |
| 2022 | 100,000 | - | 100,000 |
| Total | $ 450,000 | $ 354,623 | $804,623 |

**Note 8. Operating Segments**

The Company maintains two active operating segments: BioTherapeutics and Vaccines/BioDefense. Each segment includes an element of overhead costs specifically associated with its operations, with its corporate shared services group responsible for support functions generic to both operating segments.

| | Three Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Revenues | | |
| Vaccines/BioDefense | $1,449,044 | $990,971 |
| BioTherapeutics | 276,501 | - |
| Total | $1,725,545 | $990,971 |
| | | |
| Income (Loss) from Operations | | |
| Vaccines/BioDefense | $30,299 | $197,270 |
| BioTherapeutics | (923,960) | (1,574,261) |
| Corporate | (695,629) | (939,838) |
| Total | $(1,589,290) | $(2,316,829) |
| Amortization and Depreciation Expense | | |
| Vaccines/BioDefense | $4,512 | $9,611 |
| BioTherapeutics | 5,345 | 8,077 |
| Corporate | 1,313 | 933 |
| Total | $11,170 | $18,621 |
| | | |
| Interest Income, Net | | |
| Corporate | $32,948 | $5,231 |
| | | |
| Share-Based Compensation | | |
| Vaccines/BioDefense | $12,818 | $14,973 |
| BioTherapeutics | 21,898 | 22,827 |
| Corporate | 55,709 | 56,247 |
| Total | $90,425 | $94,047 |

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Revenues | | |
| Vaccines/BioDefense | $2,258,300 | $2,321,855 |
| BioTherapeutics | 587,018 | - |
| Total | $2,845,318 | $2,321,855 |
| | | |
| Income (Loss) from Operations | | |
| Vaccines/BioDefense | $(55,906) | $333,870 |
| BioTherapeutics | (2,445,308) | (2,601,816) |
| Corporate | (1,482,177) | (1,787,073) |
| Total | $(3,983,391) | $(4,055,019) |
| Amortization and Depreciation Expense | | |
| Vaccines/BioDefense | $8,992 | $19,380 |
| BioTherapeutics | 10,729 | 17,644 |
| Corporate | 2,663 | 2,647 |
| Total | $22,384 | $39,671 |
| | | |
| Interest Income, Net | | |
| Corporate | $49,843 | $9,984 |
| | | |
| Share-Based Compensation | | |
| Vaccines/BioDefense | $28,486 | $32,971 |
| BioTherapeutics | 50,216 | 72,597 |
| Corporate | 119,693 | 135,106 |
| Total | $198,395 | $240,674 |

| | As of June 30, 2018 | As of December 31, 2017 |
|---|---|---|
| Identifiable Assets | | |
| Vaccines/BioDefense | $1,443,142 | $ 906,416 |
| BioTherapeutics | 166,364 | 116,344 |
| Corporate | 4,542,632 | 8,526,891 |
| Total | $6,152,139 | $ 9,549,651 |

**Note 9. Subsequent Event**

On July 2, 2018, the Company closed an underwritten public offering of 7,766,990 shares of its common stock and warrants to purchase up to an aggregate of 3,106,796 shares of its common stock at a combined at the market offering price of $1.03. In addition, at the closing the underwriters exercised the over-allotment option to purchase additional warrants to purchase 466,019 shares of common stock. The warrants have a per share exercise price of $2.25 and will

expire forty-two months from the date of issuance. On July 9, 2018, the underwriters exercised the over-allotment option to purchase 1,165,048 additional shares of common stock. The total gross proceeds to the Company from the at the market offering were approximately $9.2 million before deducting underwriting discounts and commissions and other estimated offering expenses.

**ITEM 2 – Management's Discussion and Analysis OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis provides information to explain our results of operations and financial condition. You should also read our unaudited consolidated interim financial statements and their notes included in this Form 10-Q, and our audited consolidated financial statements and their notes. Risk Factors and other information included in our Annual Report on Form 10-K for the year ended December 31, 2017. This report contains forward-looking statements. Forward-looking statements within this Form 10-Q are identified by words such as "believes," "anticipates," "expects," "intends," "may," "will" "plans" and other similar expressions, however, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are subject to significant risks, uncertainties and other factors, which may cause actual results to differ materially from those expressed in, or implied by, these forward-looking statements. Except as expressly required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements to reflect events, circumstances or developments occurring subsequent to the filing of this Form 10-Q with the U.S. Securities and Exchange Commission or for any other reason and you should not place undue reliance on these forward-looking statements. You should carefully review and consider the various disclosures we make in this report and our other reports filed with the U.S. Securities and Exchange Commission that attempt to advise interested parties of the risks, uncertainties and other factors that may affect our business. We provide addresses to internet sites solely for the information to investors. We do not intend any addresses to be active links or to otherwise incorporate the contents of any website into this report.*

**Our Business Overview**

We are a late-stage biopharmaceutical company focused on developing and commercializing products to treat rare diseases where there is an unmet medical need. We maintain two active business segments: BioTherapeutics and Vaccines/BioDefense.

Our BioTherapeutics business segment is developing a novel photodynamic therapy (SGX301) utilizing topical synthetic hypericin activated with safe visible fluorescent light for the treatment of cutaneous T-cell lymphoma ("CTCL"), our first-in-class innate defense regulator technology, dusquetide (SGX942) for the treatment of oral mucositis in head and neck cancer, and proprietary formulations of oral beclomethasone 17,21-dipropionate ("BDP") for the prevention/treatment of gastrointestinal ("GI") disorders characterized by severe inflammation, including pediatric Crohn's disease (SGX203) and acute radiation enteritis (SGX201).

Our Vaccines/BioDefense business segment includes active development programs for RiVax®, our ricin toxin vaccine candidate, OrbeShield®, our GI acute radiation syndrome ("GI ARS") therapeutic candidate and SGX943, our

therapeutic candidate for antibiotic resistant and emerging infectious disease. The development of our vaccine programs currently is supported by our heat stabilization technology, known as ThermoVax®, under existing and on-going government contract funding. With the government contract from the National Institute of Allergy and Infectious Diseases ("NIAID"), we will attempt to advance the development of RiVax® to protect against exposure to ricin toxin. We have advanced the development of OrbeShield® for the treatment of GI ARS with funds received under our awarded government contracts with the Biomedical Advanced Research and Development Authority ("BARDA") and grants from NIAID.

An outline of our business strategy follows:

Complete enrollment and report preliminary results in our pivotal Phase 3 clinical trial of SGX301 for the treatment of CTCL;

Continue enrollment of our pivotal Phase 3 clinical trial of SGX942 for the treatment of oral mucositis in head and neck cancer, including the expansion of the Phase 3 trial of SGX942 to select European study sites;

Continue development of RiVax® in combination with our ThermoVax® technology to develop a new heat stable vaccine in biodefense with NIAID funding support;

Continue to apply for and secure additional government funding for each of our BioTherapeutics and Vaccines/BioDefense programs through grants, contracts and/or procurements;

Pursue business development opportunities for our pipeline programs, as well as explore merger/acquisition strategies; and

Acquire or in-license new clinical-stage compounds for development.

**Corporate Information**

We were incorporated in Delaware in 1987 under the name Biological Therapeutics, Inc. In 1987, we merged with Biological Therapeutics, Inc., a North Dakota corporation, pursuant to which we changed our name to "Immunotherapeutics, Inc." We changed our name to "Endorex Corp." in 1996, to "Endorex Corporation" in 1998, to "DOR BioPharma, Inc." in 2001, and finally to "Soligenix, Inc." in 2009. Our principal executive offices are located at 29 Emmons Drive, Suite B-10, Princeton, New Jersey 08540 and our telephone number is (609) 538-8200.

**Our Product Candidates in Development**

The following tables summarize our product candidates under development:

**BioTherapeutic Product Candidates**

| Soligenix Product Candidate | Therapeutic Indication | Stage of Development |
|---|---|---|
| SGX301 | | |

| | | |
|---|---|---|
| | Cutaneous T-Cell Lymphoma | Phase 2 trial completed; demonstrated significantly higher response rate compared to placebo; Phase 3 clinical trial initiated in December 2015, with an interim analysis anticipated in October 2018, and final results expected in the first half of 2019 |
| SGX942 | Oral Mucositis in Head and Neck Cancer | Phase 2 trial completed; demonstrated significant response compared to placebo with positive long-term (12 month) safety also reported; Phase 3 clinical trial initiated July 2017, with interim analysis anticipated in the first half of 2019 and final results expected in the second half of 2019 |
| SGX203** | Pediatric Crohn's disease | Phase 1/2 clinical trial completed; efficacy data, pharmacokinetic (PK)/pharmacodynamic (PD) profile and safety profile demonstrated; Phase 3 clinical trial initiation contingent upon additional funding, such as through partnership |
| SGX201** | Acute Radiation Enteritis | Phase 1/2 clinical trial completed; safety profile and preliminary efficacy demonstrated |

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**Vaccine Thermostability Platform****

| Soligenix Product Candidate | Indication | Stage of Development |
|---|---|---|
| ThermoVax® | Thermostability of aluminum adjuvanted vaccines | Pre-clinical |

**BioDefense Products****

| Soligenix Product Candidate | Indication | Stage of Development |
|---|---|---|
| RiVax® | Vaccine against Ricin Toxin Poisoning | Phase 1a and 1b trials completed, safety and neutralizing antibodies for protection demonstrated; Phase 1/2 trial planned for the second half of 2018 |
| OrbeShield® | Therapeutic against GI ARS | Pre-clinical |
| SGX943 | Therapeutic against Emerging Infectious Disease | Pre-clinical |

**Contingent upon continued government contract/grant funding or other funding source.

**BioTherapeutics Overview**

***SGX301 – for Treating Cutaneous T-Cell Lymphoma***

SGX301 is a novel, first-in-class, photodynamic therapy that utilizes safe visible light for activation. The active ingredient in SGX301 is synthetic hypericin, a photosensitizer which is topically applied to skin lesions and then activated by fluorescent light 16 to 24 hours later. Hypericin is also found in several species of *Hypericum* plants, although the drug used in SGX301 is chemically synthesized by a proprietary manufacturing process and not extracted from plants. Importantly, hypericin is optimally activated with visible light thereby avoiding the negative consequences of ultraviolet light. Other light therapies using UVA light result in serious adverse effects including secondary skin cancers.

Combined with photoactivation, in clinical trials synthetic hypericin has demonstrated significant anti-proliferative effects on activated normal human lymphoid cells and inhibited growth of malignant T-cells isolated from CTCL patients. In both settings, it appears that the mode of action is an induction of cell death in a concentration as well as a light dose-dependent fashion. These effects appear to result, in part, from the generation of singlet oxygen during photoactivation of hypericin.

Hypericin is one of the most efficient known generators of singlet oxygen, the key component for phototherapy. The generation of singlet oxygen induces necrosis and apoptosis in adjacent cells. The use of topical synthetic hypericin coupled with directed visible light results in generation of singlet oxygen only at the treated site. We believe that the use of visible light (as opposed to cancer-causing ultraviolet light) is a major advance in photodynamic therapy. In a published Phase 2 clinical study in CTCL, after six weeks of twice weekly therapy, a majority of patients experienced a statistically significant ($p \leq 0.04$) improvement with SGX301 whereas the placebo was ineffective: 58.3% compared to 8.3%, respectively.

SGX301 has received Orphan Drug designation as well as Fast Track designation from the FDA. The Orphan Drug Act is intended to assist and encourage companies to develop safe and effective therapies for the treatment of rare diseases and disorders. In addition to providing a seven-year term of market exclusivity for SGX301 upon final FDA approval, Orphan Drug designation also positions us to be able to leverage a wide range of financial and regulatory benefits, including government grants for conducting clinical trials, waiver of FDA user fees for the potential submission of a New Drug Application (“NDA”) for SGX301, and certain tax credits. In addition, Fast Track is a designation that the FDA reserves for a drug intended to treat a serious or life-threatening condition and one that demonstrates the potential to address an unmet medical need for the condition. Fast Track designation is designed to facilitate the development and expedite the review of new drugs. For instance, should events warrant, we will be eligible to submit a NDA for SGX301 on a rolling basis, permitting the FDA to review sections of the NDA prior to receiving the complete submission. Additionally, NDAs for Fast Track development programs ordinarily will be eligible for priority review. SGX301 for the treatment of CTCL also was granted Orphan Drug designation in the European Union (“EU”) from the European Medicines Agency (“EMA”) Committee for Orphan Medical Products and Promising Innovative Medicine (“PIM”) designation from the Medicines and Healthcare Products Regulatory Agency (“MHRA”) in the United Kingdom (“UK”).

We initiated our pivotal Phase 3 clinical study of SGX301 for the treatment of CTCL during December 2015. This trial, referred to as the "FLASH" study (Fluorescent Light Activated Synthetic Hypericin), aims to evaluate the response to SGX301 as a skin directed therapy to treat early stage CTCL. We are actively enrolling patients with approximately thirty CTCL centers across the U.S. participating in this pivotal trial. The Phase 3 protocol is a highly powered, double-blind, randomized, placebo-controlled, multicenter trial and will seek to enroll approximately 120 evaluable subjects. The trial will consist of three treatment cycles, each of eight weeks duration. Treatments will be administered twice weekly for the first six weeks and treatment response will be determined at the end of the eighth week. In the first treatment cycle, approximately 80 subjects will receive SGX301 and 40 will receive placebo treatment of their index lesions. In the second cycle, all subjects will receive SGX301 treatment of their index lesions, and in the third cycle all subjects will receive SGX301 treatment of all of their lesions. The majority of subjects enrolled to date have elected to continue into the third optional, open-label cycle of the study. We continue to work closely with the Cutaneous Lymphoma Foundation, as well as the National Organization for Rare Disorders. Subjects will be followed for an additional six months after their last evaluation visit. The primary efficacy endpoint will be assessed on the percentage of patients in each of the two treatment groups (i.e., SGX301 and placebo) achieving a partial or complete response of the treated lesions, defined as a ≥ 50% reduction in the total Composite Assessment of Index Lesion Disease Severity ("CAILS") score for three index lesions at the Cycle 1 evaluation visit (Week 8) compared to the total CAILS score at baseline. Other secondary measures will assess treatment response including duration, degree of improvement, time to relapse and safety.

During September 2017, the National Cancer Institute ("NCI"), part of the National Institutes of Health ("NIH") awarded us a Small Business Innovation Research ("SBIR") grant of approximately $1.5 million over two years to support the conduct of our pivotal, Phase 3, randomized, double-blind, placebo-controlled study evaluating SGX301 (synthetic hypericin) as a treatment for CTCL.

We estimate the potential worldwide market for SGX301 is in excess of $250 million for all applications, including the treatment of CTCL. This potential market information is a forward-looking statement, and investors are urged not to place undue reliance on this statement. While we have determined this potential market size based on assumptions that we believe are reasonable, there are a number of factors that could cause our expectations to change or not be realized. See "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements – Industry Data and Market Information."

**Cutaneous T-Cell Lymphoma**

CTCL is a class of non-Hodgkin's lymphoma ("NHL"), a type of cancer of the white blood cells that are an integral part of the immune system. Unlike most NHLs, which generally involve B-cell lymphocytes (involved in producing antibodies), CTCL is caused by an expansion of malignant T-cell lymphocytes (involved in cell-mediated immunity) normally programmed to migrate to the skin. These skin-trafficking malignant T-cells migrate to the skin, causing various lesions to appear that may change shape as the disease progresses, typically beginning as a rash and eventually forming plaques and tumors. Mycosis fungoides ("MF") is the most common form of CTCL. It generally presents with

skin involvement only, manifested as scaly, erythematous patches. Advanced disease with diffuse lymph node and visceral organ involvement is usually associated with a poorer response rate to standard therapies. A relatively uncommon sub-group of CTCL patients present with extensive skin involvement and circulating malignant cerebriform T-cells, referred to as Sézary syndrome. These patients have substantially graver prognoses (expected five-year survival rate of 24%), than those with MF (expected five-year survival rate of 88%).

CTCL mortality is related to stage of disease, with median survival generally ranging from about 12 years in the early stages to only 2.5 years when the disease has advanced. There is currently no FDA-approved drug for front-line treatment of early stage CTCL. Treatment of early-stage disease generally involves skin-directed therapies. One of the most common unapproved therapies used for early-stage disease is oral 5 or 8-methoxypsoralen ("Psoralen") given with ultraviolet A ("UVA") light, referred to as PUVA, which is approved for dermatological conditions such as disabling psoriasis not adequately responsive to other forms of therapy, idiopathic vitiligo and skin manifestations of CTCL in persons who have not been responsive to other forms of treatment. Psoralen is a mutagenic chemical that interferes with DNA causing mutations and other malignancies. Moreover, UVA is a carcinogenic light source that when combined with the Psoralen, results in serious adverse effects including secondary skin cancers; therefore, the FDA requires a Black Box warning for PUVA.

CTCL constitutes a rare group of NHLs, occurring in about 4% of the approximate 500,000 individuals living with NHL. We estimate, based upon review of historic published studies and reports and an interpolation of data on the incidence of CTCL, that it affects over 20,000 individuals in the U.S., with approximately 2,800 new cases seen annually.

**Dusquetide**

Dusquetide (research name: SGX94) is an innate defense regulator ("IDR") that regulates the innate immune system to simultaneously reduce inflammation, eliminate infection and enhance tissue healing.

Dusquetide is based on a new class of short, synthetic peptides known as IDRs. It has a novel mechanism of action in that it modulates the body's reaction to both injury and infection and is both simultaneously anti-inflammatory and anti-infective. IDRs have no direct antibiotic activity but modulate host responses, increasing survival after infections with a broad range of bacterial Gram-negative and Gram-positive pathogens including both antibiotic sensitive and resistant strains, as well as accelerating resolution of tissue damage following exposure to a variety of agents including bacterial pathogens, trauma and chemo- or radiation-therapy. IDRs represent a novel approach to the control of infection and tissue damage via highly selective binding to an intracellular adaptor protein, sequestosome-1, also known as p62, which has a pivotal function in signal transduction during activation and control of the innate defense system. Preclinical data indicate that IDRs may be active in models of a wide range of therapeutic indications including life-threatening bacterial infections as well as the severe side-effects of chemo- and radiation-therapy. Additionally, due to selective binding to p62, dusquetide may have potential anti-tumor action.

Dusquetide has demonstrated efficacy in numerous animal disease models including mucositis, colitis, skin infection and other bacterial infections and has been evaluated in a double-blind, placebo-controlled Phase 1 clinical trial in 84 healthy volunteers with both single ascending dose and multiple ascending dose components. Dusquetide was shown to have a good safety profile and be well-tolerated in all dose groups when administered by IV over 7 days and was

consistent with safety results seen in pre-clinical studies. We believe that market opportunities for dusquetide include, but are not limited to, oral and gastrointestinal mucositis, acute Gram-positive bacterial infections (e.g., methicillin resistant *Staphylococcus aureus* (MRSA)), acute Gram-negative infections (e.g., acinetobacter, melioidosis), and acute radiation syndrome.

***SGX942 – for Treating Oral Mucositis in Head and Neck Cancer***

SGX942 is our product candidate containing our IDR technology, dusquetide, targeting the treatment of oral mucositis in head and neck cancer patients. Oral mucositis in this patient population is an area of unmet medical need where there are currently no approved drug therapies. Accordingly, we received Fast Track designation for the treatment of oral mucositis as a result of radiation and/or chemotherapy treatment in head and neck cancer patients from the FDA. In addition, dusquetide has been granted PIM designation in the UK by the MHRA for the treatment of severe oral mucositis in head and neck cancer patients receiving chemoradiation therapy. The U.S. Patent and Trademark Office has granted the patent titled “Novel Peptides and Analogs for Use in the Treatment of Oral Mucositis”. The newly issued patent claims therapeutic use of dusquetide and related IDR analogs, and adds to composition of matter claims for dusquetide and related analogs that have been granted in the U.S. and worldwide.

We initiated a Phase 2 clinical study of SGX942 for the treatment of oral mucositis in head and neck cancer patients in December of 2013. We completed enrollment in this trial in the second half of 2015, and in December 2015 released positive preliminary results. In this Phase 2 proof-of-concept clinical study that enrolled 111 patients, SGX942, at a dose of 1.5 mg/kg, successfully reduced the median duration of severe oral mucositis by 50%, from 18 days to 9 days ($p=0.099$) in all patients and by 67%, from 30 days to 10 days ($p=0.040$) in patients receiving the most aggressive chemoradiation therapy for treatment of their head and neck cancer. The p-values met the prospectively defined statistical threshold of $p<0.1$ in the study protocol. A less severe occurrence of oral mucositis, ulcerative oral mucositis (defined as oral mucositis with a WHO score ≥2 corresponding to the occurrence of overt ulceration in the mouth), was also monitored during the study. In the patients receiving the most aggressive chemoradiation therapy, the median duration of oral mucositis was found to decrease from 65 days in the placebo treated patients to 51 days in the patients treated with SGX942 1.5 mg/kg ($p=0.099$).

In addition to identifying the best dose of 1.5 mg/kg, this study achieved all objectives, including increased incidence of “complete response” of tumor at the one month follow-up visit (47% in placebo vs. 63% in SGX942 at 1.5 mg/kg). Decreases in mortality and decreases in infection rate were also observed with SGX942 treatment, consistent with the preclinical results observed in animal models.

SGX942 was found to be generally safe and well tolerated, consistent with the safety profile observed in the prior Phase 1 study conducted in 84 healthy volunteers. The long-term (12 month) follow-up data was consistent with the preliminary positive safety and efficacy findings. While the placebo population experienced the expected 12-month survival rate of approximately 80%, as defined in the Surveillance, Epidemiology, and End Results statistics 1975-2012 from the National Cancer Institute, the SGX942 1.5 mg/kg treatment group reported a 12-month survival rate of 93% (7% mortality in the SGX942 1.5 mg/kg group compared to 19% in the placebo group). Similarly, tumor resolution (complete response) at 12 months was better in the SGX942 1.5 mg/kg treatment group relative to the placebo population (80% in the 1.5 mg/kg group compared to 74% in the placebo group). Moreover, in the patients receiving chemotherapy every third week, the SGX942 1.5 mg/kg treatment group had a tumor resolution rate (complete response) of 82% throughout the 12 months following chemoradiation therapy, while the placebo group experienced a 64% complete response rate. The long-term follow-up results from the Phase 2 study are reviewed in “Dusquetide: Reduction in Oral Mucositis associated with Enduring Ancillary Benefits in Tumor Resolution and Decreased Mortality in Head and Neck Cancer Patients” published online in Biotechnology Reports and available at the following link: https://doi.org/10.1016/j.btre.2017.05.002. In addition to safety, evaluations of other secondary efficacy endpoints, such as the utilization of opioid pain medication, indicated that the SGX942 1.5mg/kg treatment group had a 40% decrease in the use of opioids at the later stage of the treatment phase of the trial, when oral mucositis is usually most severe and expected to increase pain medication use. This was in contrast to the placebo group, which demonstrated a 10% increase in use of opioids over this same period. Data from this Phase 2 trial was published online in the Journal of Biotechnology. The publication also delineates the supportive nonclinical data in this indication, demonstrating consistency in the qualitative and quantitative biological response, including dose response, across the nonclinical and clinical data sets. The results are available at the following link: http://authors.elservier.com/sd/article/S01681656116315668.

On September 9, 2016, we and SciClone Pharmaceuticals, Inc. ("SciClone") entered into an exclusive license agreement, pursuant to which we granted rights to SciClone to develop, promote, market, distribute and sell SGX942 in defined territories. Under the terms of the license agreement, SciClone will be responsible for all aspects of development, product registration and commercialization in the territories, having access to data generated by us. In exchange for exclusive rights, SciClone will pay us royalties on net sales, and we will supply commercial drug product to SciClone on a cost-plus basis, while maintaining worldwide manufacturing rights.

We have received clearance from the FDA to advance the pivotal Phase 3 protocol for SGX942 in the treatment of oral mucositis in patients with head and neck cancer receiving chemoradiation therapy. Additionally, we have received positive Scientific Advice from the EMA for the development of SGX942 as a treatment for oral mucositis in patients with head and neck cancer. The Scientific Advice from the EMA indicates that a single, double-blind, placebo-controlled, multinational, Phase 3 pivotal study, if successful, in conjunction with the Phase 2 dose-ranging study, is generally considered sufficient to support a marketing authorization application ("MAA") to the EMA for potential licensure in Europe. The advice also provided several suggestions to strengthen the study design and data collection that were integrated into the final protocol. Scientific Advice is offered by the EMA to stakeholders for clarification of questions arising during development of medicinal products. The scope of Scientific Advice is limited to scientific issues and focuses on development strategies rather than pre-evaluation of data to support an MAA. Scientific Advice is legally non-binding and is based on the current scientific knowledge which may be subject to future changes.

We had been working with leading oncology centers, a number of which participated in the Phase 2 study, to advance this Phase 3 clinical trial referred to as the "DOM–INNATE" study (Dusquetide treatment in Oral Mucositis – by modulating INNATE immunity). Based on the positive and previously published Phase 2 results (Study IDR-OM-01), the pivotal Phase 3 clinical trial (Study IDR-OM-02) is a highly powered, double-blind, randomized, placebo-controlled, multinational trial that will seek to enroll approximately 190 subjects with squamous cell carcinoma of the oral cavity and oropharynx who are scheduled to receive a minimum total cumulative radiation dose of 55 Gy fractionated as 2.0-2.2 Gy per day with concomitant cisplatin chemotherapy given as a dose of 80-100 $mg/m^2$ every third week. Subjects will be randomized to receive either 1.5 mg/kg SGX942 or placebo given twice a week during and for two weeks following completion of chemoradiation therapy ("CRT"). The primary endpoint for the study will be the median duration of severe oral mucositis, which will be assessed by oral examination at each treatment visit and then through six weeks following completion of CRT. Oral mucositis will be evaluated using the WHO Grading system. Severe oral mucositis is defined as a WHO Grade of ≥3. Subjects will be followed for an additional 12 months after the completion of treatment.

During July 2017, we initiated our pivotal Phase 3 study with a controlled roll-out of U.S. study sites, and will follow with the addition of European centers in 2018. We anticipate that approximately fifty U.S. and European oncology centers will be participating in this pivotal Phase 3 study.

During September 2017, the National Institute of Dental and Craniofacial Research ("NIDCR"), part of the NIH, awarded us a SBIR grant of approximately $1.5 million over two years to support the conduct of our Phase 3, multinational, randomized, double-blind, placebo-controlled study evaluating SGX942 (dusquetide) as a treatment for severe oral mucositis in patients with head and neck cancer receiving CRT.

We estimate the potential worldwide market for SGX942 is in excess of $500 million for all applications, including the treatment of oral mucositis. This potential market information is a forward-looking statement, and investors are urged not to place undue reliance on this statement. While we have determined this potential market size based on assumptions that we believe are reasonable, there are a number of factors that could cause our expectations to change or not be realized. See "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements — Industry Data and Market Information."

**Oral Mucositis**

Mucositis is the clinical term for damage done to the mucosa by anticancer therapies. It can occur in any mucosal region, but is most commonly associated with the mouth, followed by the small intestine. We estimate, based upon our review of historic studies and reports, and an interpolation of data on the incidence of mucositis, that mucositis affects approximately 500,000 people in the U.S. per year and occurs in 40% of patients receiving chemotherapy. Mucositis can be severely debilitating and can lead to infection, sepsis, the need for parenteral nutrition and narcotic analgesia. The GI damage causes severe diarrhea. These symptoms can limit the doses and duration of cancer treatment, leading to sub-optimal treatment outcomes.

The mechanisms of mucositis have been extensively studied and have been recently linked to the interaction of chemotherapy and/or radiation therapy with the innate defense system. Bacterial infection of the ulcerative lesions is regarded as a secondary consequence of dysregulated local inflammation triggered by therapy-induced cell death, rather than as the primary cause of the lesions.

We estimate, based upon our review of historic studies and reports, and an interpolation of data on the incidence of oral mucositis, that oral mucositis is a subpopulation of approximately 90,000 patients in the U.S., with a comparable number in Europe. Oral mucositis almost always occurs in patients with head and neck cancer treated with radiation therapy (greater than 80% incidence of severe mucositis) and is common in patients undergoing high dose chemotherapy and hematopoietic cell transplantation, where the incidence and severity of oral mucositis depends greatly on the nature of the conditioning regimen used for myeloablation.

**Oral BDP**

Oral BDP (beclomethasone 17,21-dipropionate) represents a first-of-its-kind oral, locally acting therapy tailored to treat GI inflammation. BDP has been marketed in the U.S. and worldwide since the early 1970s as the active pharmaceutical ingredient in a nasal spray and in a metered-dose inhaler for the treatment of patients with allergic rhinitis and asthma. Oral BDP is specifically formulated for oral administration as a single product consisting of two tablets. One tablet is intended to release BDP in the upper sections of the GI tract and the other tablet is intended to release BDP in the lower sections of the GI tract.

Based on its pharmacological characteristics, oral BDP may have utility in treating other conditions of the gastrointestinal tract having an inflammatory component. We are planning to pursue development programs for the treatment of pediatric Crohn’s disease, acute radiation enteritis and GI ARS pending further grant funding. We are also exploring the possibility of testing oral BDP for local inflammation associated with ulcerative colitis, among other

indications.

We estimate the potential worldwide market for oral BDP is in excess of $500 million for all applications, including the treatment of pediatric Crohn’s disease. This potential market information is a forward-looking statement, and investors are urged not to place undue reliance on this statement. While we have determined this potential market size based on assumptions that we believe are reasonable, there are a number of factors that could cause our expectations to change or not be realized. See “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements and Industry Data and Market Information.”

***SGX203 – for Treating Pediatric Crohn's Disease***

SGX203 is a two tablet delivery system of BDP specifically designed for oral use that allows for administration of immediate and delayed release BDP throughout the small bowel and the colon. The FDA has given SGX203 Orphan Drug designation as well as Fast Track designation for the treatment of pediatric Crohn's disease. We intend to pursue a pivotal Phase 3 clinical trial of SGX203 for the treatment of pediatric Crohn's disease contingent upon additional funding, such as through partnership funding support.

**Pediatric Crohn's Disease**

Crohn's disease causes inflammation of the GI tract. Crohn's disease can affect any area of the GI tract, from the mouth to the anus, but it most commonly affects the lower part of the small intestine, called the ileum. The swelling caused by the disease extends deep into the lining of the affected organ. The swelling can induce pain and can make the intestines empty frequently, resulting in diarrhea. Because the symptoms of Crohn's disease are similar to other intestinal disorders, such as irritable bowel syndrome and ulcerative colitis, it can be difficult to diagnose. People of Ashkenazi Jewish heritage have an increased risk of developing Crohn's disease.

Crohn's disease can appear at any age, but it is most often diagnosed in adults in their 20s and 30s. However, approximately 30% of people with Crohn's disease develop symptoms before 20 years of age. We estimate, based upon our review of historic published studies and reports, and an interpolation of data on the incidence of pediatric Crohn's disease, that pediatric Crohn's disease is a subpopulation of approximately 80,000 patients in the U.S. with a comparable number in Europe. Crohn's disease tends to be both severe and extensive in the pediatric population and a relatively high proportion (approximately 40%) of pediatric Crohn's patients have involvement of their upper gastrointestinal tract.

Crohn's disease presents special challenges for children and teens. In addition to bothersome and often painful symptoms, the disease can stunt growth, delay puberty, and weaken bones. Crohn's disease symptoms may sometimes prevent a child from participating in enjoyable activities. The emotional and psychological issues of living with a chronic disease can be especially difficult for young people.

***SGX201 – for Preventing Acute Radiation Enteritis***

SGX201 is a delayed-release formulation of BDP specifically designed for oral use. In 2012, we completed a Phase 1/2 clinical trial testing SGX201 in prevention of acute radiation enteritis. Patients with rectal cancer scheduled to undergo concurrent radiation and chemotherapy prior to surgery were randomized to one of four dose groups. The objectives of the study were to evaluate the safety and maximal tolerated dose of escalating doses of SGX201, as well as the preliminary efficacy of SGX201 for prevention of signs and symptoms of acute radiation enteritis. The study demonstrated that oral administration of SGX201 was safe and well tolerated across all four dose groups. There was also evidence of a potential dose response with respect to diarrhea, nausea and vomiting and the assessment of enteritis according to National Cancer Institute Common Terminology Criteria for Adverse Events for selected gastrointestinal events. In addition, the incidence of diarrhea was lower than that seen in recent published historical control data in this patient population. This program was supported in part by a $500,000 two-year SBIR grant awarded by the NIH. We continue to work with our Radiation Enteritis medical advisors to identify additional funding opportunities to support the clinical development program.

We have received Fast Track designation from the FDA for SGX201 for acute radiation enteritis.

**Acute Radiation Enteritis**

External radiation therapy is used to treat most types of cancer, including cancer of the bladder, uterine, cervix, rectum, prostate, and vagina. During delivery of treatment, some level of radiation will also be delivered to healthy tissue, including the bowel, leading to acute and chronic toxicities. The large and small bowels are very sensitive to radiation and the larger the dose of radiation the greater the damage to normal bowel tissue. Radiation enteritis is a condition in which the lining of the bowel becomes swollen and inflamed during or after radiation therapy to the abdomen, pelvis, or rectum. Most tumors in the abdomen and pelvis need large doses, and almost all patients receiving radiation to the abdomen, pelvis, or rectum will show signs of acute enteritis.

Patients with acute enteritis may have nausea, vomiting, abdominal pain and bleeding, among other symptoms. Some patients may develop dehydration and require hospitalization. With diarrhea, the gastrointestinal tract does not function normally, and nutrients such as fat, lactose, bile salts, and vitamin B12 are not well absorbed.

Symptoms will usually resolve within two to six weeks after therapy has ceased. Radiation enteritis is often not a self-limited illness, as over 80% of patients who receive abdominal radiation therapy complain of a persistent change in bowel habits. Moreover, acute radiation injury increases the risk of development of chronic radiation enteropathy, and overall 5% to 15% of the patients who receive abdominal or pelvic irradiation will develop chronic radiation enteritis.

We estimate, based upon our review of historic published studies and reports, and an interpolation of data on the treatment courses and incidence of cancers occurring in the abdominal and pelvic regions, there to be over 100,000 patients annually in the U.S., with a comparable number in Europe, who receive abdominal or pelvic external beam radiation treatment for cancer, and these patients are at risk of developing acute and chronic radiation enteritis.

**Vaccines/BioDefense Overview**

***ThermoVax® – Thermostability Technology***

Our thermostability technology, ThermoVax®, is a novel method of rendering aluminum salt, (known colloquially as Alum), adjuvanted vaccines stable at elevated temperatures. Alum is the most widely employed adjuvant technology in the vaccine industry. The value of ThermoVax® lies in its potential ability to eliminate the need for cold chain production, transportation, and storage for Alum adjuvanted vaccines. This would relieve companies of the high costs of producing and maintaining vaccines under refrigerated conditions. Based on historical reports from the World Health Organization and other scientific reports, we believe that a meaningful proportion of vaccine doses globally are wasted due to excursions from required cold chain temperature ranges. This is due to the fact that most Alum adjuvanted vaccines need to be maintained at between 2 and 8 degrees Celsius (“C”) and even brief excursions from this temperature range (especially below freezing) usually necessitates the destruction of the product or the initiation of costly stability programs specific for the vaccine lots in question. We believe that the savings realized from the elimination of cold chain costs and related product losses would significantly increase the profitability of vaccine products. We believe that elimination of the cold chain could further facilitate the use of these vaccines in the lesser developed parts of the world. ThermoVax® has the potential to facilitate easier storage and distribution of strategic national stockpile vaccines in emergency settings.

ThermoVax® development was supported pursuant to our $9.4 million NIAID grant enabling development of thermo-stable ricin (RiVax®) and anthrax (VeloThrax®) vaccines. Proof-of-concept preclinical studies with ThermoVax® indicate that it is able to produce stable vaccine formulations using adjuvants, protein immunogens, and other components that ordinarily would not withstand long temperature variations exceeding customary refrigerated storage conditions. These studies were conducted with our aluminum-adjuvanted ricin toxin vaccine, RiVax® and our aluminum-adjuvanted anthrax vaccine, VeloThrax®. Each vaccine was manufactured under precise lyophilization conditions using excipients that aid in maintaining native protein structure of the key antigen. When RiVax® was kept

at 40 degrees C (104 degrees Fahrenheit) for up to one year, all of the animals vaccinated with the lyophilized RiVax® vaccine developed potent and high titer neutralizing antibodies. In contrast, animals that were vaccinated with the liquid RiVax® vaccine kept at 40 degrees C did not develop neutralizing antibodies and were not protected against ricin exposure. The ricin A chain is extremely sensitive to temperature and rapidly loses the ability to induce neutralizing antibodies when exposed to temperatures higher than 8 degrees C. When VeloThrax® was kept for up to 16 weeks at 70 degrees C, it was able to develop a potent antibody response, unlike the liquid formulation kept at the same temperature. Moreover, we also have demonstrated the compatibility of our thermostabilization technology with other secondary adjuvants such as TLR-4 agonists. Additionally, the University of Colorado ("UC") conducted a study that demonstrated a heat stable vaccine formulation of a human papillomavirus ("HPV") vaccine. The work was conducted by Drs. Randolph and Garcea and demonstrated the successful conversion of a commercial virus-like-particle based vaccine requiring cold chain storage to a subunit, alum-adjuvanted, vaccine which is stable at ambient temperatures. This work, funded by a UC seed grant and the Specialized Program of Research Excellence in cervical cancer, is the first demonstration of the utility of ThermoVax® technology for the development of a subunit based commercial vaccine. The HPV vaccine formulation was found to be stable for at least 12 weeks at 50 degrees C. In the study, mice immunized with the ThermoVax®-stabilized HPV subunit vaccine were also found to achieve immune responses similar to the commercial HPV vaccine, Cervarix®, as measured by either total antibody levels or neutralizing antibody levels. Moreover, whereas the immune responses to Cervarix® were reduced after storage for 12 weeks at 50 degrees C, the ThermoVax® formulated vaccine retained its efficacy. The results were published online in the European Journal of Pharmaceutics and Biopharmaceutics. See http://www.sciencedirect.com/science/article/pii/S0939641115002416).

We also entered into a collaboration agreement with Axel Lehrer, PhD of the Department of Tropical Medicine, Medical Microbiology and Pharmacology, John A. Burns School of Medicine, University of Hawai i at Manoa ("UH Manoa") and Hawaii Biotech, Inc. ("HBI") to develop a heat stable subunit Ebola vaccine. Dr. Lehrer, a co-inventor of the Ebola vaccine with HBI, has shown proof of concept efficacy with subunit Ebola vaccines in non-human primates. The most advanced Ebola vaccines involve the use of vesicular stomatitis virus and adenovirus vectors – live, viral vectors which complicate the manufacturing, stability and storage requirements. Dr. Lehrer's vaccine candidate is based on highly purified recombinant protein antigens, circumventing many of these manufacturing difficulties. Dr. Lehrer and HBI have developed a robust manufacturing process for the required proteins. Application of ThermoVax® may allow for a product that can avoid the need for cold chain distribution and storage, yielding a vaccine ideal for use in both the developed and developing world. Although this agreement has expired in accordance with its terms, we expect to extend the period of the agreement or enter into another agreement with Dr. Lehrer and HBI to replace this agreement.

During September 2017, we announced we will be participating in a NIAID Research Project (R01) grant awarded to UH Manoa for the development of a trivalent thermostabilized Ebola vaccine, with our awarded funding of approximately $700,000 over five years. Previous collaborations demonstrated the feasibility of developing a heat stable subunit Ebola vaccine. Under the terms of the subaward, we will continue to support vaccine formulation development with our proprietary vaccine thermostabilization technology, ThermoVax®. Ultimately, the objective is to produce a thermostable trivalent filovirus vaccine for protection against Ebola and related diseases, allowing worldwide distribution without the need for cold storage.

In April 2018, the UC delivered a notice of termination of our license agreement for heat stabilization technology based upon our failure to achieve one of the development milestones: initiation of the Phase 1 clinical trial of the heat stabilization technology by March 31, 2018. After negotiating with the UC regarding termination, we and the UC have agreed to extend the termination date to October 31, 2018 in order to allow us time to attempt to agree upon terms of a potential agreement, which would allow us to keep the rights to, and to continue to develop, the heat stabilization technology or a product candidate containing the heat stabilization technology. Currently, no terms have been agreed upon and we cannot assure that our efforts to retain our rights to the heat stabilization technology will proceed on a timely basis, or at all. If we are unable to successfully retain our rights to the heat stabilization technology our development of the heat stabilization technology may cease and our development of RiVax® may be delayed, which could harm our business, prospects, financial condition and results of operations.

***RiVax® – Ricin Toxin Vaccine***

RiVax® is our proprietary vaccine candidate being developed to protect against exposure to ricin toxin and if approved, would be the first ricin vaccine. The immunogen in RiVax® induces a protective immune response in animal models of ricin exposure and functionally active antibodies in humans. The immunogen consists of a genetically inactivated ricin A chain subunit that is enzymatically inactive and lacks residual toxicity of the holotoxin. RiVax® has demonstrated statistically significant ($p < 0.0001$) preclinical survival results, providing 100% protection against acute lethality in an aerosol exposure non-human primate model (Roy et al, 2015, Thermostable ricin vaccine protects rhesus macaques against aerosolized ricin: Epitope-specific neutralizing antibodies correlate with protection, PNAS USA 112:3782-3787), and has also been shown to be well tolerated and immunogenic in two Phase 1 clinical trials in healthy volunteers. Results of the first Phase 1 human trial of RiVax® established that the immunogen was safe and induced antibodies that we believe may protect humans from ricin exposure. The antibodies generated from vaccination, concentrated and purified, were capable of conferring immunity passively to recipient animals, indicating that the vaccine was capable of inducing functionally active antibodies in humans. The outcome of this study was published in the Proceedings of the National Academy of Sciences (Vitetta et al., 2006, A Pilot Clinical Trial of a Recombinant Ricin Vaccine in Normal Humans, PNAS, 103:2268-2273). The second trial which was completed in September 2012 and was sponsored by University of Texas Southwestern Medical Center ("UTSW"), evaluated a more potent formulation of RiVax® that contained an aluminum adjuvant (Alum). The results of the Phase 1b study indicated that Alum-adjuvanted RiVax® was safe and well tolerated, and induced greater ricin neutralizing antibody levels in humans than adjuvant-free RiVax®. The outcomes of this second study were published in the Clinical and Vaccine Immunology (Vitetta et al., 2012, Recombinant Ricin Vaccine Phase 1b Clinical Trial, Clin. Vaccine Immunol. 10:1697-1699). We have adapted the original manufacturing process for the immunogen contained in RiVax® for thermostability and large scale manufacturing and recent studies have confirmed that the thermostabilized RiVax® formulation enhances the stability of the RiVax® antigen, enabling storage for at least 1 year at temperatures up to 40°C (104 °F). The program will pursue approval via the FDA "Animal Rule" since it is not possible to test the efficacy of the vaccine in a clinical study which would expose humans to ricin. Uniform, easily measured and species-neutral immune correlates of protection that can be measured in humans and animals, and are indicative of animal survival to subsequent ricin challenge, are central to the application of the "Animal Rule". Recent work has identified such potential correlates of immune protection in animals and work to qualify and validate these approaches is continuing, with the goal of utilizing these assays in a planned Phase 1/2 clinical trial with the thermostable RiVax® formulation. We have entered into a collaboration with IDT Biologika GmbH to scale-up the formulation/filling process and continue development and validation of analytical methods established at IDT to advance the program. We also have initiated a development agreement with Emergent BioSolutions, Inc. to implement a commercially viable, scalable production technology for the RiVax® drug substance protein antigen.

The development of RiVax® has been sponsored through a series of overlapping challenge grants, UC1, and cooperative grants, U01, from the NIH, granted to us and to UTSW where the vaccine originated. The second clinical trial was supported by a grant from the FDA's Office of Orphan Products to UTSW. To date, we and UTSW have collectively received approximately $25 million in grant funding from the NIH for the development of RiVax®. In September 2014, we entered into a contract with the NIH for the development of RiVax® that would provide up to an additional $24.7 million of funding in the aggregate if options to extend the contract are exercised by the NIH. The development agreements with Emergent BioSolutions and IDT are specifically funded under this NIH contract.

During June 2017, NIAID exercised an option for the evaluation of RiVax® to fund additional animal efficacy studies. The exercised option will provide us with approximately $2.0 million in additional funding. Additionally, during August 2017 NIAID exercised an option to fund good manufacturing practices compliant RiVax® bulk drug substance and finished drug product manufacturing, which is required for the conduct of future preclinical and clinical safety and efficacy studies. The exercised option will provide us with approximately $2.5 million in additional non-dilutive funding, bringing the total amount awarded to date under this contract to $21.2 million, of which $16.2 million is still available. If all contract options are exercised, the total award of up to $24.7 million will support the preclinical, manufacturing and clinical development activities necessary to advance heat stable RiVax® with the FDA. In addition, biomarkers for RiVax® testing have been successfully identified, facilitating potential approval under the FDA Animal Rule.

RiVax® has been granted Orphan Drug designation by the FDA for the prevention of ricin intoxication. In addition, RiVax® has also been granted Orphan Drug designation in the EU from the EMA Committee for Orphan Medical Products.

Assuming development efforts are successful for RiVax®, we believe potential government procurement contract(s) could reach as much as $200 million. This potential procurement contract information is a forward-looking statement, and investors are urged not to place undue reliance on this statement. While we have determined this potential procurement contract value based on assumptions that we believe are reasonable, there are a number of factors that could cause our expectations to change or not be realized. See “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements and Industry Data and Market Information.”

As a new chemical entity, an FDA approved RiVax® vaccine has the potential to qualify for a biodefense Priority Review Voucher (“PRV”). Approved under the 21st Century Cures Act in late 2016, the biodefense PRV is awarded upon approval as a medical countermeasure when the active ingredient(s) have not been otherwise approved for use in any context. PRVs are transferable and can be sold, with sales in recent years of up to $350 million. When redeemed, PRVs entitle the user to an accelerated review period of nine months, saving a median of seven months review time as calculated in 2009. However, FDA must be advised 90 days in advance of the use of the PRV and the use of a PRV is associated with an additional user fee ($2.7 million in 2017).

**Ricin Toxin**

Ricin toxin can be cheaply and easily produced, is stable over long periods of time, is toxic by several routes of exposure and thus has the potential to be used as a biological weapon against military and/or civilian targets. As a bioterrorism agent, ricin could be disseminated as an aerosol, by injection, or as a food supply contaminant. The potential use of ricin toxin as a biological weapon of mass destruction has been highlighted in a Federal Bureau of Investigation Bioterror report released in November 2007 titled Terrorism 2002-2005, which states that “Ricin and the bacterial agent anthrax are emerging as the most prevalent agents involved in WMD investigations” (http://www.fbi.gov/stats-services/publications/terrorism-2002-2005/terror02_05.pdf). In recent years, Al Qaeda in the Arabian Peninsula has threatened the use of ricin toxin to poison food and water supplies and in connection with explosive devices. Domestically, the threat from ricin remains a concern for security agencies. As recently as April 2013, letters addressed to the President of the United States, a U.S. Senator and a judge tested positive for ricin.

The Centers for Disease Control and Prevention has classified ricin toxin as a Category B biological agent. Ricin works by first binding to glycoproteins found on the exterior of a cell, and then entering the cell and inhibiting protein synthesis leading to cell death. Once exposed to ricin toxin, there is no effective therapy available to reverse the course of the toxin. The recent ricin threat to government officials has heightened the awareness of this toxic threat. Currently, there is no FDA approved vaccine to protect against the possibility of ricin toxin being used in a terrorist

attack, or its use as a weapon on the battlefield nor is there a known antidote for ricin toxin exposure.

***OrbeShield® – for Treating GI Acute Radiation Syndrome***

OrbeShield® is an oral immediate and delayed release formulation of the topically active corticosteroid BDP and is being developed for the treatment of GI ARS. Corticosteroids are a widely used class of anti-inflammatory drugs. BDP is a corticosteroid with predominantly topical activity that is approved for use in asthma, psoriasis and allergic rhinitis.

OrbeShield® has demonstrated positive preclinical results in a canine GI ARS model which indicate that dogs treated with OrbeShield® demonstrated statistically significant (p=0.04) improvement in survival with dosing at either two hours or 24 hours after exposure to lethal doses of total body irradiation ("TBI") when compared to control dogs. OrbeShield® appears to significantly mitigate the damage to the GI epithelium caused by exposure to high doses of radiation using a well-established canine model of GI ARS.

The GI tract is highly sensitive to ionizing radiation and the destruction of epithelial tissue is one of the first effects of radiation exposure. The rapid loss of epithelial cells leads to inflammation and infection that are often the primary cause of death in acute radiation injury. This concept of GI damage also applies to the clinical setting of oncology, where high doses of radiation cannot be administered effectively to the abdomen because radiation is very toxic to the intestines. We are seeking to treat the same type of toxicity in our acute radiation enteritis clinical program with SGX201. As a result, we believe that OrbeShield® has the potential to be a "dual use" compound, a desirable characteristic which is a specific priority for ARS and other medical countermeasure indications.

In September 2013, we received two government contracts from BARDA and NIAID for the advanced preclinical and manufacturing development of OrbeShield® leading to FDA approval to treat GI ARS. The BARDA contract contained a two-year base period with two contract options, exercisable by BARDA, for a total of five years and up to $26.3 million. The NIAID contract consisted of a one-year base period and two contract options, exercisable by NIAID, for a total of three years and up to $6.4 million. We received a combined approximate $18 million in contract funding from both BARDA and NIAID which includes combined supplemental funding of $634,000, extending the programs through the first quarter of 2017. The NIAID contract was completed during the first quarter of 2017 along with the expiration of the base period of the BARDA contract for the development of OrbeShield®, with BARDA electing not to extend the current contract beyond the base period. We intend to continue to apply for additional government funding, as opportunities to do so become available. Previously, development of OrbeShield® had been largely supported by a $1 million NIH grant to our academic partner, the Fred Hutchinson Cancer Research Center. In July 2012, we received an SBIR grant from NIAID of approximately $600,000 to support further preclinical development of OrbeShield® for the treatment of acute GI ARS. The FDA has given OrbeShield® Orphan Drug designation and Fast Track designation for the prevention of death following a potentially lethal dose of total body irradiation during or after a radiation disaster.

Assuming development efforts are successful for OrbeShield®, we believe potential government procurement contracts could reach as much as $450 million. This potential procurement contract information is a forward-looking statement, and investors are urged not to place undue reliance on this statement. While we have determined this potential procurement contract value based on assumptions that we believe are reasonable, there are a number of factors that could cause our expectations to change or not be realized. See "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements – Industry Data and Market Information."

**GI Acute Radiation Syndrome**

ARS occurs after toxic radiation exposure and involves several organ systems, notably the bone marrow, the GI tract and later the lungs. In the event of a nuclear disaster or terrorist detonation of a nuclear bomb, casualties exposed to greater than 2 grays ("Gy") of absorbed radiation are at high risk for development of clinically significant ARS. Exposure to high doses of radiation exceeding 10-12 Gy causes acute GI injury which can result in death. The GI tract is highly sensitive due to the continuous need for crypt stem cells and production of mucosal epithelium. The extent of injury to the bone marrow and the GI tract are the principal determinants of survival after exposure to TBI. Although

the hematopoietic syndrome can be rescued by bone marrow transplantation or growth factor administration, there is no established treatment or preventive measure for the GI damage that occurs after high-dose radiation. As a result, we believe there is an urgent medical need for specific medical counter measures against the lethal pathophysiological manifestations of radiation-induced GI injury.

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***SGX943 – for Treating Emerging and/or Antibiotic-Resistant Infectious Diseases***

SGX943 is an IDR, containing the same active ingredient as SGX942. Dusquetide is a fully synthetic, 5-amino acid peptide with high aqueous solubility and stability. Extensive *in vivo* preclinical studies have demonstrated enhanced clearance of bacterial infection with SGX943 administration. SGX943 has shown efficacy against both Gram-negative and Gram-positive bacterial infections in preclinical models, independent of whether the bacteria is antibiotic-resistant or antibiotic-sensitive.

The innate immune system is responsible for rapid and non-specific responses to combat bacterial infection. Augmenting these responses represents an alternative approach to treating bacterial infections. In animal models, IDRs are efficacious against both antibiotic-sensitive and antibiotic-resistant infections, both Gram-positive and Gram-negative bacteria, and are active irrespective of whether the bacteria occupies a primarily extracellular or intracellular niche. IDRs are also effective as stand-alone agents or in conjunction with antibiotics. An IDR for the treatment of serious bacterial infections encompasses a number of clinical advantages including:

Treatment when antibiotics are contraindicated, such as:

before the infectious organism and/or its antibiotic susceptibility is known; or

in at-risk populations prior to infection.

An ability to be used as an additive, complementary treatment with antibiotics, thereby:

enhancing efficacy of sub-optimal antibiotic regimens (e.g., partially antibiotic-resistant infections);

enhancing clearance of infection, thereby minimizing the generation of antibiotic resistance; and

reducing the required antibiotic dose, again potentially minimizing the generation of antibiotic resistance.

An ability to modulate the deleterious consequences of inflammation in response to the infection, including the inflammation caused by antibiotic-driven bacterial lysis; and

Being unlikely to generate bacterial resistance since the IDR acts on the host, and not the pathogen.

Importantly, systemic inflammation and multi-organ failure is the ultimate common outcome of not only emerging and/or antibiotic-resistant infectious diseases, but also of most biothreat agents (e.g., *Burkholderia pseudomallei*), indicating that dusquetide would be applicable not only to antibiotic-resistant infection, but also to biothreat agents, especially where the pathogen is not known and/or has been engineered for enhanced antibiotic resistance.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses, and related disclosure of contingent assets and liabilities. We evaluate these estimates and judgments on an on-going basis.

Revenue Recognition

Our revenues are primarily generated from government contracts and grants. The revenue from government contracts and grants is based upon subcontractor costs and internal costs incurred that are specifically covered by the contracts and grants, plus a facilities and administrative rate that provides funding for overhead expenses and management fees. These revenues are recognized when expenses have been incurred by subcontractors or when we incur internal expenses that are related to the government contracts and grants.

Research and Development Costs

Research and development costs are charged to expense when incurred in accordance with FASB ASC 730, *Research and Development*. Research and development includes costs such as clinical trial expenses, contracted research and license agreement fees with no alternative future use, supplies and materials, salaries, share-based compensation, employee benefits, equipment depreciation and allocation of various corporate costs. Purchased in-process research and development expense represents the value assigned or paid for acquired research and development for which there is no alternative future use as of the date of acquisition.

Share-Based Compensation

Stock options are issued with an exercise price equal to the market price on the date of grant. Stock options issued to directors upon re-election vest quarterly for a period of one year (new director issuances are fully vested upon issuance). Stock options issued to employees generally vest 25% on the grant date, then 25% each subsequent year for a period of three years. Stock options vest over each three-month period from the date of issuance to the end of the three-year period. These options have a ten-year life for as long as the individuals remain employees or directors. In general, when an employee or director terminates their position the options will expire within three months, unless otherwise extended by the Board.

From time to time, we issue restricted shares of common stock to vendors and consultants as compensation for services performed. Typically, these instruments vest upon issuance and therefore the entire share-based compensation expense is recognized upon issuance to the vendors and/or consultants.

Share-based compensation expense for options, warrants and shares of common stock granted to non-employees has been determined in accordance with FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, and represents

the fair value of the consideration received, or the fair value of the equity instruments issued, whichever may be more reliably measured. For options that vest over future periods, the fair value of options granted to non-employees is amortized as the options vest. The fair value is remeasured each reporting period until performance is complete.

The fair value of each option grant made during 2018 and 2017 was estimated on the date of each grant using the Black-Scholes option pricing model and amortized ratably over the option vesting periods, which approximates the service period.

Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act significantly revises U.S. corporate income taxation by, among other things, lowering the U.S. corporate income tax rate from 35.0 % to 21.0% effective January 1, 2018. We do not anticipate any impact to tax expense due to the full valuation allowance on our deferred tax assets and believe that the most significant impact on our consolidated financial statements was the reduction of approximately $14 million for the deferred tax assets related to net operating losses and other assets. Such reduction was fully offset by changes to our valuation allowance.

In December 2017, the SEC issued Staff Accounting Bulletin 118, which allows a measurement period, not to exceed one year, to finalize the accounting for the income tax impacts of the Tax Act. Until the accounting for the income tax impacts of the Tax Act is complete, the reported amounts are based on reasonable estimates, are disclosed as provisional and reflect any adjustments in subsequent periods as we refine our estimates or complete our accounting of such tax effects.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. A review of all available positive and negative evidence is considered, including our current and past performance, the market environment in which we operate, the utilization of past tax credits, and the length of carryback and carryforward periods. Deferred tax assets and liabilities are measured utilizing tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. No current or deferred income taxes have been provided through June 30, 2018 due to the net operating losses incurred by us since our inception. We recognize accrued interest and penalties associated with uncertain tax positions, if any, as part of income tax expense. There were no tax related interest and penalties recorded for 2018 or 2017. Additionally, we have not recorded an asset for unrecognized tax benefits or a liability for uncertain tax positions at June 30, 2018 and December 31, 2017.

Earnings Per Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity. Since there is a significant number of options and warrants outstanding, fluctuations in the actual market price can have a variety of results for each period presented.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions such as the fair value of warrants and stock options and recovery of the useful life of intangibles that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Material Changes in Results of Operations**

***Three and Six Months Ended June 30, 2018 Compared to June 30, 2017***

For the three months ended June 30, 2018, we had a net loss of $1,556,342 as compared to a net loss of $2,311,598 for the same period in the prior year, representing a decrease in the net loss of $755,256 or 33%. For the six months ended June 30, 2018, we had a net loss of $3,933,548 as compared to a net loss of $4,045,035 for the same period in the prior year, representing a decrease in the net loss of $111,487 or 3%. For the three and six months ended June 30, 2018, revenues and associated costs related to government contracts and grants awarded in support of our development of OrbeShield® for the treatment of GI ARS and RiVax® and other development programs. For the three months ended June 30, 2018, we had total revenues of $1,725,545 as compared to $990,971 for the same period in the prior year, representing an increase of $734,574 or 74%. For the six months ended June 30, 2018, we had revenues of $2,845,318 as compared to $2,321,855 for the same period in the prior year, representing an increase of $523,463 or 23%. The increase in revenues for both the three and six months ended June 30, 2018 was primarily a result of the NIH grant revenues from grants awarded in September 2017 to support the development of SGX301 for the treatment of CTCL and SGX942 for the treatment of oral mucositis in head and neck cancer, as well as an increase due to material production related to our RiVax® NIAID contract costs.

We incurred costs related to those revenues for the three months ended June 30, 2018 and 2017 of $1,493,676 and $677,167, respectively, representing an increase of $816,509 or 121%. For the six months ended June 30, 2018, costs related to revenues were $2,472,597 as compared to $1,764,482 for the same period in the prior year, representing an increase of $708,115 or 40%. The increase in costs for both the three and six months ended June 30, 2018 is a result of the increase in grant revenues, including the addition of the NIH grants awarded in September 2017 to support the development of SGX301 for the treatment of CTCL and SGX942 for the treatment of oral mucositis in head and neck cancer, and the NIAID Research Project subaward grant for the development of a trivalent thermostabilized Ebola vaccine. Additionally, for the three months ended June 30, 2018, subcontractor costs increased due to increased material production related to our RiVax® NIAID contract.

Our gross profit for the three months ended June 30, 2018 was $231,869 or 13% of revenues, as compared to $313,804 or 32% of revenues for the same period in 2017, representing a decrease of $81,935 or 26%. Gross profit for the six months ended June 30, 2018 was $372,721 or 13% of revenues, as compared to $557,373 or 24% of revenues for the same period in 2017, representing a decrease of $184,652 or 33%. The decrease in gross profit for the three and six months ended June 30, 2018 is attributable to a smaller share of reimbursable costs that were available for contracted fixed overhead reimbursement compared to the same period of the prior year. Additionally, we received a milestone fee in the second quarter of 2017 under our RiVax® contract with NIAID. There was no similar milestone received for the three months ended June 30, 2018.

Research and development expenses were $1,170,333 for the three months ended June 30, 2018, as compared to $1,783,714 for the same period in 2017, representing a decrease of $613,381 or 34%. Research and development expenses were $2,973,693 for the six months ended June 30, 2018, as compared to $3,001,254 for the same period in 2017, representing a decrease of $27,561 or 1%. The decrease in research and development expense for the three months ended June 30, 2018 was primarily related to our three grants in which certain research and development expenses are reimbursable under the terms of the grants. As a result, the expenditures for those research and development expenses are recorded in cost of revenues.

General and administrative expenses were $650,826 for the three months ended June 30, 2018, as compared to $846,919 and for the same period in 2017, representing a decrease of $196,093 or 23%. General and administrative expenses were $1,382,419 for the six months ended June 30, 2018, as compared to $1,611,138 for the same period in 2017, representing a decrease of $228,719 or 14%. The decrease is primarily related to a decrease in professional fees.

Interest income for the three months ended June 30, 2018 was $32,948 as compared to $5,231 for the same period in 2017, representing an increase of $27,717 or 530%. Interest income for the six months ended June 30, 2018 was $49,843 as compared to $9,984 for the same period in 2017, representing an increase of $39,859 or 399%. The increase is due to larger cash investments in dividend-producing accounts for both the three and six months ended June 30, 2018 as compared to the same periods in 2017.

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**Financial Condition**

***Cash and Working Capital***

As of June 30, 2018, we had cash and cash equivalents of $4,244,871 as compared to $7,809,487 as of December 31, 2017, representing a decrease of $3,564,616 or 46%. As of June 30, 2018, we had working capital of $2,369,324 as compared to working capital of $6,185,863 as of December 31, 2017, representing a decrease of $3,816,539 or 62%. The decrease in cash and working capital was primarily related to expenditures to support the pivotal Phase 3 clinical trial of SGX301 for the treatment of CTCL and expenditures incurred in the pivotal Phase 3 clinical trial of SGX942 for the treatment of oral mucositis in head and neck cancer, including the expansion of the Phase 3 trial of SGX942 to select European study sites.

Based on our current rate of cash outflows, cash on hand (inclusive of the proceeds from our July 2018 public offering – see Note 9 of our consolidated financial statements), proceeds from government contract and grant programs, proceeds available from the equity line with Lincoln Park Capital Fund, LLC and proceeds from the State of New Jersey Technology Business Tax Certificate Transfer Program, management believes that its current cash will be sufficient to meet the anticipated cash needs for working capital and capital expenditures for at least the next 12 months from the issuance of the financial statements included in this Quarterly Report on Form 10-Q.

Our plans with respect to our liquidity management include, but are not limited to, the following:

We have up to $17.3 million in active government contract funding still available to support our associated research programs through 2018 and beyond, provided the federal agencies exercise all options and do not elect to terminate the contracts for convenience. We plan to submit additional contract and grant applications for further support of our programs with various funding agencies;

We have continued to use equity instruments to provide a portion of the compensation due to vendors and collaboration partners and expect to continue to do so for the foreseeable future;

We will pursue Net Operating Loss (“NOL”) sales in the state of New Jersey pursuant to its Technology Business Tax Certificate Transfer Program. Based on the receipt of $416,810 in proceeds from the sale of NJ NOL in 2017, we expect to participate in the program for the year ending December 31, 2018 and beyond if the program is available;

We plan to pursue potential partnerships for pipeline programs. However, there can be no assurances that we can consummate such transactions;

We have $10.1 million available from an equity facility expiring in March 2019; and

We may seek additional capital in the private and/or public equity markets, pursue government contracts and grants as well as business development activities, to continue our operations, respond to competitive pressures, develop new products and services, and to support new strategic partnerships. We are currently evaluating additional equity/debt financing opportunities on an ongoing basis and may execute them when appropriate. However, there can be no assurances that we can consummate such a transaction, or consummate a transaction at favorable pricing.

In July 2018, we received total gross proceeds from an at the market public offering of its common stock and warrants of $9.2 million, before deducting underwriting discounts and commissions and other estimated expenses. We plan to use the proceeds to support the two pivotal Phase 3 clinical trials of SGX301 and SGX942, as well as for working capital.

***Expenditures***

Under our budget and based upon our existing product development agreements and license agreements pursuant to letters of intent and option agreements, we expect our total research and development expenditures for the next 12 months to be approximately $11.9 million before any contract reimbursements, of which $7.9 million relates to the BioTherapeutics business and $4.0 million relates to the Vaccines/BioDefense business. We anticipate contract revenues in the next 12 months of approximately $5.9 million to offset research and development expenses of the Vaccines/BioDefense business segment.

The table below details our costs for research and development by program and amounts reimbursed for the six months ended June 30:

| | 2018 | 2017 |
|---|---|---|
| Research & Development Expenses | | |
| RiVax® and ThermoVax® Vaccines | $223,975 | $216,741 |
| Dusquetide (SGX942) | 1,725,594 | 1,639,689 |
| SGX943 | - | 42 |
| SGX301 | 909,275 | 953,186 |
| Other | 114,849 | 191,596 |
| Total | 2,973,693 | 3,001,254 |
| Reimbursed under Government Contracts | | |
| OrbeShield® | $- | $171,618 |
| RiVax® and ThermoVax® Vaccines | 2,081,239 | 1,592,864 |
| SGX942 | 187,144 | - |
| SGX301 | 204,214 | - |
| Total | 2,472,597 | 1,764,482 |
| Grand Total | $5,446,290 | $4,765,736 |

***Contractual Obligations***

We have commitments of approximately $450,000 as of June 30, 2018 relating to several licensing agreements with consultants and universities. Additionally, we have collaboration and license agreements, which upon clinical or commercialization success may require the payment of milestones of up to $7.9 million and/or royalties up to 6% of net sales of covered products, if and when achieved. However, there can be no assurance that clinical or commercialization success will occur. During the quarter ended June 30, 2018, approximately $197,000 was paid to the University of British Columbia as a milestone payment, which was accrued for at December 31, 2017. As of June 30, 2018, no milestone or royalty payments have been accrued.

We currently lease approximately 6,200 square feet of office space at 29 Emmons Drive, Suite B-10 in Princeton, New Jersey pursuant to a lease that was amended in October 2017 and expires in October 2020. This office space currently serves as our corporate headquarters. The rent for the first 12 months is approximately $11,367 per month, or approximately $22.00 per square foot. The rent will increase to approximately $11,625 per month, or approximately $22.50 per square foot, for the next 12 months and increase to approximately $11,883 per month, or approximately $23.00 per square foot for the remainder of the lease.

On September 3, 2014, we entered into an asset purchase agreement with Hy Biopharma, Inc. (“Hy Biopharma”) pursuant to which we acquired certain intangible assets, properties and rights of Hy Biopharma related to the development of Hy BioPharma’s synthetic hypericin product. As consideration for the assets acquired, we paid $275,000 in cash and issued 184,912 shares of common stock with a fair value of $3,750,000. These amounts were charged to research and development expense during the third quarter of 2014 as the assets will be used in our research and development activities and do not have alternative future use pursuant to generally accepted accounting principles in the U.S. Provided all future success-oriented milestones are attained, we will be required to make payments of up to $10.0 million, if and when achieved. Payments will be payable in restricted securities of the Company not to exceed 19.9% ownership of our outstanding stock. As of June 30, 2018, no milestone payments have been made or accrued.

In February 2007, our Board of Directors authorized the issuance of 5,000 shares of our common stock to Dr. Schaber immediately prior to the completion of a transaction, or series or a combination of related transactions negotiated by our Board of Directors whereby, directly or indirectly, a majority of our capital stock or a majority of our assets are transferred from us and/or our stockholders to a third party. Dr. Schaber's amended employment agreement includes our obligation to issue such shares if such event occurs.

As a result of the above agreements, we have future contractual obligations over the next five years as follows:

| **Year** | Research and Development | **Property and Other Leases** | **Total** |
|---|---|---|---|
| July 1 through December 31, 2018 | $ 50,000 | $72,989 | $122,989 |
| 2019 | 100,000 | 148,561 | 248,561 |
| 2020 | 100,000 | 127,377 | 227,377 |
| 2021 | 100,000 | 5,696 | 105,696 |
| 2022 | 100,000 | - | 100,000 |
| Total | $ 450,000 | $354,623 | $804,623 |

**ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because the majority of our investments are in short-term marketable securities. Due to the nature of our short-term investments, we believe that we are not subject to any material market risk exposure. We do not have any foreign currency or other derivative financial instruments.

**ITEM 4 - CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the possible controls and procedures.

Our management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and principal financial officer, has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls

There was no change in our internal control over financial reporting identified in connection with the evaluation of such internal controls that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to

materially affect, the Company’s internal control over financial reporting.

**PART II – OTHER INFORMATION.**

**ITEM 1A – RISK FACTORS**

Our business faces significant risks. These risks include those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. If any of the events or circumstances described in the referenced risks actually occur, our business, financial condition or results of operations could be materially adversely affected and such events or circumstances could cause our actual results to differ materially from the results contemplated by the "forward-looking" statements contained in this report. These risks should be read in conjunction with the other information set forth in this Quarterly Report as well as in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and in our periodic reports on Form 10-Q and Form 8-K. Additional risks not presently known to us or other factors not perceived by us to present significant risks to our business at this time also may impair our business, financial condition and results of operations. We do not undertake to update any of the "forward-looking" statements or to announce the results of any revisions to these "forward-looking" statements, except as required by law.

**ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In April 2018, we issued 10,000 shares of common stock to Lincoln Park Capital Fund, LLC ("Lincoln Park") for an aggregate price of $18,600 and issued to Lincoln Park 78 additional shares of common stock as a commitment fee. Such securities were issued pursuant to an exemption provided by Section 4(a)(2) of the Securities Act. Lincoln Park represented to us that it is an "accredited investor" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act; is knowledgeable, sophisticated and experienced in making investment decisions of this kind and received adequate information about us or had adequate access, including through Lincoln Park's business relationship with us, to information about us.

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SOLIGENIX, INC.**

August 8, 2018 By /s/ Christopher J. Schaber
Christopher J. Schaber, PhD
President and Chief Executive Officer
(Principal Executive Officer)

August 8, 2018 By /s/ Karen Krumeich
Karen Krumeich
Senior Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act rule 13(a)-14(a) (under Section 302 of the Sarbanes-Oxley Act of 2002). |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act rule 13(a)-14(a) (under Section 302 of the Sarbanes-Oxley Act of 2002). |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |



Net cash provided by operating activities from continuing operations
29,782 22,032 33,235 13,974 11,726
Net cash used in investing activities from continuing operations
(5,250) (26,609) (36,164) (53,002) (14,730)
Net cash provided by (used in) financing activities from continuning operations
(23,931) 7,513 12,688 35,022 (1,605)
Amounts attributable to MEAS common shareholders:

Income from continuing operations, net of income taxes
$6,058 $5,279 $16,442 $11,957 $10,327
Income (loss) from discontinued operations, net of income taxes

(142) - - 2,277 14,207
Net income
5,916 5,279 16,442 14,234 24,534
Per common share:

Income from continuing operations, net of income taxes:

Basic
$0.42 $0.36 $1.14 $0.85 $0.75
Diluted
0.41 0.36 1.13 0.83 0.72
Net Income:

Basic
0.41 0.36 1.14 1.01 1.79
Diluted
0.40 0.36 1.13 0.99 1.71
Cash dividends declared
- - - - -
Financial Position at Year-End:

Total assets
$279,975 $288,609 $285,615 $224,691 $151,194
Long-term and short-term debt, revolver and notes payable
72,028 93,060 86,718 62,424 20,447
Shareholders' equity
166,996 157,276 155,789 120,637 95,497

The above table includes, as of the purchase date, the fourteen acquisitions consummated since fiscal 2005 with total purchase price exceeding $167,000 (See Note 5 to the Consolidated Financial Statements of the Company in this Annual Report on Form 10-K for a discussion regarding acquisitions). Fiscal year 2007 includes $1,275 in litigation settlement costs. Fiscal 2010, 2009, 2008 and 2007 include non-cash equity based compensation of $3,218, $2,942, $3,397 and $2,887, respectively. Fiscal 2009 includes $2,881 income tax expense for the valuation allowance related to foreign deferred tax assets and an adjustment for $500 to increase inventory balances related to a purchase accounting adjustment for the Intersema acquisition.

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

(Amounts in thousands, except per share data)

Our Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to provide the reader of the Company’s financial statements with a narrative from the perspective of Company’s management. To that end, 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, including without limitation, those factors described under the caption Risk Factors in Part 1, Item 1A of this Annual Report on Form 10-K. Furthermore, the following discussion of our results of operations and financial condition should be read together with the other financial information and Consolidated Financial Statements and related Notes included in this Annual Report on Form 10-K.

Our fiscal year begins on April 1 and ends on March 31. References in this report to the year 2009 or fiscal 2009 refer to the 12-month period from April 1, 2008 through March 31, 2009 and references in this report to the year 2010 or fiscal 2010 refer to the 12-month period from April 1, 2009 through March 31, 2010.

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. Our products are based on a broad portfolio of proprietary technology and typically sold under the MEAS brand name. We are a global business and we believe we have a relatively high degree of diversity when considering our geographic reach, our broad range products, number of end-use markets and breadth of customer base. 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, temperature and fluid property 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, torque sensors and mechanical resonators. We compete in growing global market segments driven by demand for products that are smarter, safer, more energy-efficient, and environmentally-friendly. We deliver a strong value proposition to our customers through our willingness to customize sensor solutions, leveraging our innovative portfolio of core technologies and exploiting our low-cost manufacturing model based on our 15-year presence in China.

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 March 31, 2010, 2009 and 2008, exclude the results of these discontinued operations except as otherwise noted.

EXECUTIVE SUMMARY

While the Company's results in 2010 and 2009 reflect the declines resulting from one of the worst global economic recession in decades, we believe they also demonstrate our ability to manage the Company through challenging conditions. The Company remains focused on creating long-term shareholder value through continued development of innovative technologies and strengthening our market position by expanding customer relationships. To accomplish this goal, we continue to take 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 that not only proactively addressed the economic recession, but we also positioned the Company for future growth in sales and profitability, all of which we ultimately expect to translate to enhanced shareholder value. 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. The Company continues to expand its position as a global leader: Our broad range of products and geographic diversity provide the Company with a variety of opportunities to leverage technology, products, manufacturing base and our financial performance.

Prior to the recession, the Company delivered strong growth in sales and profitability, through organic growth as well as through acquisitions. We anticipate returning to that strategy, as we have already started to see the recovery in our sales.

TRENDS

There are a number of trends that we expect to have material effects on the Company in the future, including recovering global economic conditions with the resulting impact on our sales, profitability, and capital spending, changes in foreign currency exchange rates relative to the U.S. dollar, changes in our debt levels and applicable interest rates, and shifts in our overall effective tax rate. Additionally, sales and results of operations could be impacted by additional acquisitions, though there is no specific timetable for any acquisitions.

As economic conditions continue to improve, the Company expects modest overall sales growth during 2011 as compared to 2010. We believe sales for the next six to nine months will continue to trend positively, but our visibility with respect to future sales beyond nine months remains 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). We believe the majority of the improvement in our sales is due to improved overall demand, as well as increased market penetration. The mixed indicators could indicate that global demand will not quickly recover, which could 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.

As detailed in the graph below, during fiscal 2010 the Company continued to post consecutive quarters with higher net sales and higher Adjusted EBITDA on a trailing quarter-to-quarter comparison. The continued increases in sales are encouraging, which leads us to believe we may have seen the worst of the recession; however, sales have not returned to prerecession levels for an extended period of time. We believe sales bottomed out during our fourth quarter of fiscal 2009, and the continued increases in bookings and backlog are positive trends, which if sustained, should translate to continued improvements in future sales performance. Economic conditions continue to be challenging and there is uncertainty as to the strength of the economic recovery with, among other factors, the euro-zone debt crisis, Europe's sluggish recovery, high unemployment, tight credit markets and weaknesses in the housing and automotive markets.

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 and debt service). Other companies may calculate Adjusted EBITDA differently than we do, which might limit its usefulness as a comparative measure. Adjusted EBITDA is used by management in addition to and in conjunction with the results presented in accordance with GAAP. Additionally, we believe 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 |
| 3/31/2010 | $ 61,027 | $ 9,770 | $ 4,203 | $ 808 | $ 50 | $ 3,237 | $ 453 | $ 943 | $ 76 |

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

The primary factors that impact our costs of revenue include production and sales volumes, product sales mix, foreign currency exchange rates, especially with the Chinese RMB, changes in the price of raw materials and the impact of various cost control measures. We expect our gross margins during fiscal 2011 to range from approximately 39% to 43%, primarily reflecting the impact of a more stable product sales mix, improved volume of business and assuming stability in the value of the RMB relative to the U.S. dollar. Gross margins for certain quarters could be outside this expected range based upon a range of possible factors. 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. Our gross margins decreased in fiscal 2010 as compared to the prior year mainly because of the decline in overall volume of organic business. 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 certain production costs are capitalized in inventory based on normal production volumes. Since our overall level of business declined in fiscal 2010, especially during the first half, and with the working off of inventory associated with the China facility move and alignment of inventory balances with the lower sales rates, our gross margins and overall level of profits decreased accordingly. We expect continued pressures on our gross margins given our expectation that global demand will not quickly recover, which will result in unfavorable overhead absorption. Since around August 2008, the RMB has stabilized relative to the U.S. dollar. In the near term, this trend is expected to continue, but there are indications that the RMB may begin to appreciate again.

Total selling, general and administrative expense (“Total SG&A”) as a percentage of net sales was higher in fiscal 2010 and 2009 as compared to prior years before the recession, mainly reflecting the increase in Total SG&A expenses due to SG&A expenses related to acquisitions and the decrease in sales. Historically, we have been successful in leveraging our SG&A expense, growing SG&A expense more slowly than our sales growth, but the global economic recession adversely impacted our SG&A leverage. As a percent of sales, Total SG&A for 2010 was 33.9%, as compared to 35.4% and 29.5% in fiscal years 2009 and 2008, respectively. We are expecting in 2011 a decrease in our SG&A as a percentage of net sales mainly due to higher sales, which are expected to be partially offset by continued investment in R&D for new programs that are not yet generating sales (such as our new fluid property sensor) and reinstatement of compensation previously reduced as part of our proactive cost cutting measures to address the global economic recession.

Amortization of acquired intangible assets and deferred financing costs increased over the past two of years mainly due to 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. Amortization of acquired intangible assets is expected to decrease in fiscal 2011 as compared to fiscal 2010, assuming no new acquisitions. However, amortization of deferred financing costs is expected to increase with the costs incurred in connection with the refinancing of the Company's primary credit facility in May 2010 (See Long-term Debt section below for further details regarding the refinancing). At March 31, 2010, the Company had approximately $704 in deferred financing costs all of which will be written-off in the first quarter of fiscal 2011 as a result of the new credit facility.

In addition to the margin exposure as a result of the depreciation of the U.S. dollar relative to the 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, 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 2010, we recorded net fx gains of $987, and in 2009, we posted net fx losses of $771, in realized and unrealized fx changes associated with the revaluation of foreign assets held by our foreign entities. The Company's operations outside of the U.S. have expanded over the years from acquisitions. We expect to see continued fx losses or gains associated with volatility of foreign currency exchange rates.

The Company uses and may continue to use foreign currency contracts to hedge these fx exposures. The Company does not hedge all of its fx exposures, but has accepted some exposure to exchange rate movements. The Company does not apply hedge accounting when derivative financial instruments are used to manage these fx exposures. Since the Company does not apply hedge accounting, the changes in the fair value of those derivative financial instruments are reported in earnings in the fx gains or losses caption. We expect the value of the U.S. dollar will continue to fluctuate relative to the RMB, Euro, Swiss franc and Japanese yen. 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 the various taxing jurisdictions in which we operate and their varying tax rates. This is particularly challenging due to the different timing and rates of economic recovery as economies around the world try to recover from the recession. We expect an increase in our 2011 overall effective tax rate as compared to last year, excluding discrete items. The increase in the estimated overall effective tax rate mainly reflects the shift of taxable earnings to tax jurisdictions with higher tax rates. Additionally, last year's effective tax rate was impacted by a number of discrete items and the overall shift in profits and losses with 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 fiscal 2010, the Company's subsidiary in China, MEAS China, received approval from the Chinese authorities for High New Technology Enterprise ("HNTE") status. HNTE status decreased the tax rate for MEAS China from 18% to 15% through December 31, 2011. To qualify for this reduced rate the Company must continue to meet various criteria in regard to its operations related to sales, research and development activity, and intellectual property rights.

The amount of income taxes we pay is also subject to ongoing audits by U.S. federal, state and local tax authorities and by foreign tax authorities. The Company is currently being audited by the U.S. Internal Revenue Service for fiscal years ending 2007 and 2008. If these audits result in assessments different from our reserves, our future results may include unfavorable adjustments to our tax liabilities and deferred tax assets.

The Company expects to continue investing in various capital projects in fiscal 2011, and capital spending in 2011 is expected to approximate $10,000. This level of capital spending is higher than in fiscal 2010, reflecting improved economic conditions and investments in new programs to generate new sales.

CHANGES IN OUR BUSINESS

ACQUISITIONS AND DIVESTURES:

The Company made two acquisitions during fiscal 2009 ("2009 Acquisitions"). Atexis expanded our temperature sensors and probes utilizing NTC, Platinum (Pt) and thermo-couples technologies and increased our temperature manufacturing base through wholly-owned subsidiaries in France and China. FGP was a competitor of custom force, pressure and vibration sensors for aerospace and test and measurement markets.

Effective December 1, 2005, we completed the sale of the Consumer segment to Fervent Group Limited (FGL), including its Cayman Island subsidiary, ML Cayman. FGL is a company controlled by the owners of River Display Limited (RDL), 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 consolidated statements of operations and consolidated statements of cash flows for each of the fiscal years ended March 31, 2010, 2009 and 2008, and consolidated balance sheets as of March 31, 2010 and 2009, exclude the results of these discontinued operations except as otherwise noted.

RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards:

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 was 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.

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 were 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, because the Company did not have any acquisitions in 2010.

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 new postretirement plan disclosure requirements did not have a material impact on the consolidated financial statements.

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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 an 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.

In December 2009, the FASB issued new accounting standards on accounting and reporting for decreases in ownership of a subsidiary. The update is a scope clarification and revises the accounting requirements for decreases in ownership of a subsidiary that were originally contained in accounting for non-controlling interests. The revised decrease in ownership provisions require an entity that ceases to have a controlling interest in a subsidiary or group of assets that is a business to recognize a gain or loss on the transaction and include an amount for the remeasurement of any retained investment to fair value. A decrease in ownership that does not result in a loss of control is accounted for as an equity transaction with no gain or loss recognized for the difference between the carrying amount of the portion of the subsidiary or group of assets that is sold and consideration received from the buyer. The update was effective for the Company on April 1, 2009. The adoption of these new accounting standards did not have a material impact to the Company, however, the requirements of this update will be required to be applied to any future transactions that results in a decrease in ownership of businesses owned by the Company.

Recently Issued Accounting Pronouncements:

In October 2009, the FASB issued new accounting standards for multiple-deliverable revenue arrangements. These new standards establish the accounting and reporting guidance for arrangements, including multiple revenue-generating activities, and provide amendments to the criteria for separating deliverables and measuring and allocating arrangement consideration to one or more units of accounting. The amendments also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. These new accounting standards requirements are effective for fiscal years beginning after June 15, 2010, which is the Company's 2012 fiscal year. Early adoption of the standard is permitted and various options for prospective or retroactive adoption are available. The Company is currently in the process of reviewing and evaluating the impact of these new requirements, but the impact is not expected to be material on the Company's results of operations or financial condition.

In June 2009, the FASB issued new accounting principles for variable interest entities ("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 currently consolidates its one VIE, Nikkiso-Therm ("N-T"), for which the Company is considered the primary beneficiary. The Company is in the process of evaluating the new accounting principles for VIEs, and based on its preliminary assessment, the Company expects the adoption of these new accounting standards may result in the deconsolidation of N-T, which would decrease in the Company's net sales for fiscal years 2010, 2009 and 2008 by $4,582, $4,090 and $3,674, respectively. There would be no impact on net assets or net income attributable to MEAS with the deconsolidation of N-T.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the periods reported. The following accounting policies involve “critical accounting estimates” because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. In addition, while we have used our best estimates based on facts and circumstances available to us at the time, different estimates reasonably could have been used in the current period, or changes in the accounting estimates we used are reasonably likely to occur from period to period which may have a material impact on the presentation of our financial condition and results of operations. We review these estimates and assumptions periodically and reflect the effects of revisions in the period that they are determined to be necessary.

REVENUE RECOGNITION:

The Company derives revenues primarily from the sale of sensors and sensor-based systems. In order for revenue and related cost of sales from product sales to be recognized there must persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable, and collectability of the related receivable is reasonably assured. The Company’s standard terms are FOB shipping Point, but a small portion of our customers have FOB destination terms. Based on the above criteria, revenue is recognized depending on the specific terms of the arrangement: Either at the point of shipment for those sales under FOB shipping point terms or when it is received by the customer for sales under FOB destination terms. For those transactions that are shipped at or near the end of the reporting period for which the sales terms are FOB destination, the Company confirms receipt of the shipment, and if delivery has not occurred, then the revenue is not recognized. Product sales are recorded net of trade discounts at the point of sale (including volume and early payment incentives) because these allowances reflect a reduction in the price for the products, sales returns, value-added tax and similar taxes. Shipping and handling costs are included in cost of revenue, and shipping and handling costs billed to customers are included in sales. Sales to customers generally include a right of return. The Company provides for allowances for returns based upon historical and estimated return rates. Sales returns have not historically been significant to our revenues and have been within the estimates made by management. The amount of actual returns could differ from estimates. Changes in estimated returns would be accounted for in the period of change. Many of our products are designed and engineered to meet customer specifications, and customer arrangements do not involve post-installation or post-sale testing and acceptance. There is no significant variation in sales terms geographically, or among product lines and industries.

ACCOUNTS RECEIVABLE:

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The majority of the Company’s accounts receivable is due from manufacturers of electronic, automotive, military, medical and industrial products. Credit is extended based on an evaluation of a customer’s financial condition and collateral is not required. Accounts receivable are generally due within 30 to 90 days and are stated at amounts due from customers net of allowances for doubtful accounts and other sales allowances. Accounts receivable outstanding longer than the contractual payment terms are considered past due. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company’s previous loss history, the customer’s current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company reviews its allowance for doubtful accounts quarterly. Recent deterioration in overall global economic conditions and worldwide credit markets heightens the uncertainties related to customers’ ability to pay and may increase the difficulty in collecting

accounts receivable. If the financial condition of the Company's customers were to deteriorate beyond our estimates, resulting in an impairment of their ability to make payments, the Company would be required to reserve and write off additional accounts receivable balances, which would adversely impact the Company's net earnings and financial condition. Actual uncollectible accounts could exceed the Company's estimates and changes to its estimates will be accounted for in the period of change. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

INVENTORIES:

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

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

Generally, products that have existed in inventory for 12 months with no usage and that have no current demand or no expected demand, will be considered obsolete and fully reserved. Obsolete inventory approved for disposal is written-off against the reserve. Market conditions surrounding products are also considered periodically to determine if there are any net realizable valuation matters, which would require a write-down of any related inventories. If market or technological conditions change, it may be necessary for additional inventory reserves and write-downs, which would be accounted for in the period of change. The level of inventory reserves reflects the nature of the industry whereby technological and other changes, such as customer buying requirements, result in impairment of inventory. Cash flows from the purchase and sale of inventory are included in cash flows from operating activities.

GOODWILL IMPAIRMENT:

Goodwill represents the excess of the aggregate purchase price over the fair value of the net identifiable assets acquired in a purchase business combination.

Management assesses goodwill for impairment at the reporting unit level on an annual basis at fiscal year end or more frequently under certain circumstances. The goodwill impairment test is a two step test. Under the first step, the fair value of the reporting unit is compared to its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit, and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed and goodwill is not impaired.

In evaluating goodwill for impairment, the fair value of the Company's reporting units was determined using the discounted cash flow analysis in 2009 and the implied fair value approach in 2010 and 2008. The implied fair value approach consists of comparing the Company's market capitalization to the Company's book value. If the market capitalization exceeds book value, there is no impairment of goodwill. Our evaluations were completed in the fiscal years ended March 31, 2010, 2009 and 2008 for asset values as of these respective dates. Based on our analyses and the guidelines established under related accounting standards, management has concluded there was no impairment of the Company's goodwill in 2010, 2009 and 2008.

ACQUISITIONS:

Acquisitions are recorded as of the purchase date, and are included in the consolidated financial statements from the date of acquisition. In all acquisitions, the purchase price of the acquired business is allocated to the assets acquired and liabilities assumed at their fair values on the date of the acquisition. The fair values of these items are based upon management's best estimates using various valuation approaches, including the relief from royalty method, cost approach and income approach, depending on the circumstances. Certain of the acquired assets are intangible in nature, including customer relationships, patented and proprietary technology, covenants not to compete, trade names and order backlog, which are stated at cost less accumulated amortization. Amortization is computed by the straight-line method over the estimated useful lives of the assets. The excess purchase price over the amounts allocated to the assets is recorded as goodwill. All such valuation methodologies, including the determination of subsequent amortization periods, involve significant judgments and estimates. Different assumptions and subsequent actual events could yield materially different results.

Purchased intangibles and goodwill are usually not deductible for tax purposes in stock acquisitions. However, purchase accounting requires the establishment of deferred tax liabilities on purchased intangible assets (excluding goodwill) to the extent the carrying value for financial reporting exceeds the tax basis.

LONG LIVED ASSETS:

The Company accounts for the impairment of long-lived assets and amortizable intangible assets in accordance with standards for accounting for the impairment or disposal of long-lived assets. Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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

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

If the recoverability of these assets is unlikely because of the existence of one or more of the above-mentioned factors, an impairment analysis is performed using projected undiscounted cash flow at the lowest level at which cash flows is identifiable. In the event impairment is indicated, fair value is determined using the discounted cash flow method, appraisal or other accepted techniques.

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

As of March 31, 2010, there were no overall indicators of impairment; however, the Company performed an impairment analysis for two European sites resulting in no impairment. At March 31, 2009, the Company performed an impairment analysis for long-lived assets, due to triggering events which included the decline in the Company's stock price, change in market capitalization relative to net book value, and decrease in financial performance relative to historical operating results. In evaluating long-lived assets and amortizable intangible assets for impairment, there was no impairment identified by our analysis indicating the carrying amount of an asset was not recoverable in 2009. There were no indicators of potential impairment in 2008.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS:

The functional currency of the Company's foreign operating companies is the applicable local currency. In consolidation, the foreign subsidiaries' assets and liabilities are translated into United States dollars using exchange rates in effect at the balance sheet date and their operations are translated using the average exchange rates prevailing during the year. The resulting translation adjustments are recorded as a component of other comprehensive income (loss). Accumulated other comprehensive income (loss) consists of net income for the period and the cumulative impact of unrealized foreign currency translation adjustments.

The Company is subject to foreign exchange risk for foreign currency denominated transactions, such as receivables and payables. Foreign currency transaction gains and losses are recorded in foreign currency exchange in the Company's consolidated statements of operations. However, foreign currency exchange gains and losses on intercompany notes of a long-term investment nature which management does not intend to repay in the foreseeable future are recorded as a component of other comprehensive income (loss).

INCOME TAXES:

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Realization of a deferred tax asset is dependent on generating future taxable income, which is reviewed annually. The Company evaluates all positive and negative evidence in evaluating whether a valuation allowance is required. Consideration of current and expected future taxable income of the Company indicated that an overall valuation allowance is not needed. The Company annually evaluates positive and negative evidence in determining whether a valuation allowance on deferred tax assets is required.

As detailed in Note 12 to the Consolidated Financial Statements of the Company in this Annual Report on Form 10-K, the Company recorded a valuation allowance of approximately $2,881 at March 31, 2009 for certain deferred tax assets associated with net operating loss carryforwards ("NOLs"), principally at our German subsidiary. This non-cash charge to income tax expense reduced fiscal year 2009 net income by $2,881, or approximately $0.20 per diluted share. Accounting guidance for such valuation allowances is strictly based on the evaluation of positive and negative

evidence which can be objectively verified as to whether it is more likely than not that the NOLs will be utilized. If positive evidence does not outweigh negative evidence, the conclusion is that a valuation allowance is required. At March 31, 2010, our German subsidiary had cumulative losses over the past three years, primarily due to a decrease in profitability as a result of the global recession. The negative evidence of three years of cumulative losses was considered to outweigh the positive evidence that the net operating losses were not subject to expiration, because the long-term prospects of future profitability were not considered objectively verifiable. We expect our German subsidiary to return to profitability in a future period and we will continue to assess positive and negative evidence to determine if a valuation allowance is required in future periods.

Transfer pricing refers to the prices that one member of a group of related companies charges to another member of the group for goods, services, or the use of intellectual property. The Company prepares various transfer pricing studies and other such procedures to assist in determining and supporting transfer pricing. If two or more affiliated companies are located in different countries, the laws or regulations of each country generally will require that transfer prices be the same as those charged by unrelated companies dealing with each other at arm's length. If one or more of the countries in which our affiliated companies are located believes that transfer prices were manipulated by our affiliate companies in a way that distorts the true taxable income of the companies, the laws of countries where our affiliated companies are located could require us to re-determine transfer prices and thereby reallocate the income of our affiliate companies in order to reflect these transfer prices. Any reallocation of income from one of our companies in a lower tax jurisdiction to an affiliated company in a higher tax jurisdiction would result in a higher overall tax liability to us. Moreover, if the country from which the income is being reallocated does not agree to the reallocation, the same income could be subject to taxation by both countries.

CONTINGENCIES AND LITIGATION:

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Such accruals are adjusted as further information develops or circumstances change.

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

SHARE-BASED PAYMENT:

The Company has four active share-based compensation plans, which are more fully described in Note 14 to the Consolidated Financial Statements of the Company in this Annual Report on Form 10-K. Prior to fiscal 2007, the Company applied the intrinsic value method and related standards for accounting for stock issued to employees, and accordingly, recognized no compensation expense for stock option grants to employees.

The Company began accounting for compensation cost for all share based payments granted subsequent to April 1, 2006 based on the grant date fair value using the Black-Scholes option pricing model, in accordance with share-based payment accounting provisions. Prior periods were not restated to reflect the impact of adopting the new standard.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards require the input of subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our equity-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the equity-based compensation expense could be significantly different from what we have recorded in the current period. In order to provide an appropriate expected volatility, one which marketplace participants would likely use in determining an exchange price for an option, the Company revised, during the quarter ended September 30, 2006, the method of calculating expected volatility by disregarding a period of the Company's historical volatility data not considered representative of expected future volatility and replacing the disregarded period of time with peer group data. The Company considers the period of time disregarded to be within the "rare" situations stated in Securities and Exchange

Commission Staff Accounting Bulletin No. 107 (“SAB 107”). The Company experienced, during the period of time leading up to and after the restructuring in May 2002, a rare series of events, including a going concern situation, financial statement restatement, a class action shareholder lawsuit, an SEC investigation, a $4,400 asset write-down, significant net losses, and a halt in the trading of the Company’s common stock, none of which are expected to recur in the future.

The Company receives a tax deduction for certain stock options and stock option exercises during the period the options are exercised, generally for the excess of the fair value of the stock over the exercise price of the options at the exercise date. The Company is required to report excess tax benefits from the award of equity instruments as financing cash flows. Since the Company is currently in a net operating loss carry-forward position, the Company applies the tax-law-ordering approach, whereby the tax benefits are considered realized for current-year exercises of share-based compensation awards. These amounts are considered realized because such deductions offset taxable income on the Company's tax return, thereby reducing the amount of income subject to tax. The current-year stock compensation deduction is used to offset taxable income before the NOL carry-forwards because all current-year deductions take priority over NOL carry-forwards. When the tax deduction exceeds the compensation expense, the tax benefit associated with any excess deduction is considered an excess tax benefit, or "windfall." The windfall portion of the share-based compensation deduction reduces income tax payable and is credited to additional paid-in capital ("APIC"). The windfall credited to APIC increases the Company's APIC pool available to offset future tax deficiencies ("shortfalls"). Shortfalls are the amount the compensation expense exceeds the tax deduction.

RESULTS OF OPERATIONS

FISCAL YEAR ENDED MARCH 31, 2010 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2009

ANALYSIS OF CONSOLIDATED STATEMENT OF OPERATIONS

The following is a discussion and analysis of the Company's consolidated statement of operations in comparing fiscal 2010 to fiscal 2009. For further details regarding certain trends and expectations, please refer to the Executive Summary and Trend sections earlier in Item 7, Management Discussion and Analysis of our Form 10-K.

| | Years ended March 31, | | | Percent |
|---|---|---|---|---|
| | 2010 | 2009 | Change | Change |
| Net sales | $ 209,610 | $ 203,943 | $ 5,667 | 2.8 |
| Cost of goods sold | 128,241 | 118,333 | 9,908 | 8.4 |
| Gross profit | 81,369 | 85,610 | (4,241) | (5.0) |
| Operating expenses: | | | | |
| Selling, general, and administrative | 61,927 | 63,557 | (1,630) | (2.6) |
| Non-cash equity based compensation | 3,218 | 2,942 | 276 | 9.4 |
| Amortization of acquired intangibles and deferred financing costs | 6,001 | 5,609 | 392 | 7.0 |
| Total selling, general and administrative expenses | 71,146 | 72,108 | (962) | (1.3) |
| Operating income | 10,223 | 13,502 | (3,279) | (24.3) |
| Interest expense, net | 3,899 | 3,081 | 818 | 26.5 |
| Foreign currency exchange loss (gain) | (987) | 771 | (1,758) | (228.0) |
| Other expense (income) | 93 | (253) | 346 | (136.8) |
| Income before income taxes | 7,218 | 9,903 | (2,685) | (27.1) |
| Income tax expense from valuation allowance | - | 2,881 | (2,881) | (100.0) |
| Income tax expense from continuing operations | 733 | 1,355 | (622) | (45.9) |
| Income tax expense from continuing operations | 733 | 4,236 | (3,503) | (82.7) |
| Income from continuing operations, net of income taxes | 6,485 | 5,667 | 818 | 14.4 |
| Less: Net income attributable to noncontrolling interest | 427 | 388 | 39 | 10.1 |
| Income from continuing operations attributable to MEAS | $ 6,058 | $ 5,279 | $ 779 | 14.8 |

As part of our discussion and analysis, the following table summarizes certain items in our consolidated statements of income as a percentage of net sales.

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| | Years ended March 31 , | | |
|---|---|---|---|
| | 2010 | 2009 | Change |
| Net sales | 100.0% | 100.0% | - |
| Cost of goods sold | 61.2% | 58.0% | 3.2 |
| Gross profit | 38.8% | 42.0% | (3.2) |
| Operating expenses: | | | |
| Selling, general, and administrative | 29.5% | 31.2% | (1.7) |
| Non-cash equity based compensation | 1.5% | 1.4% | 0.1 |
| Amortization of acquired intangibles and deferred financing costs | 2.9% | 2.8% | 0.1 |
| Total selling, general and administrative expenses | 33.9% | 35.4% | (1.5) |
| Operating income | 4.9% | 6.6% | (1.7) |
| Interest expense, net | 1.9% | 1.5% | 0.4 |
| Foreign currency exchange loss (gain) | -0.5% | 0.4% | (0.9) |
| Other expense (income) | 0.0% | -0.1% | - |
| Income before income taxes | 3.4% | 4.9% | (1.5) |
| Income tax expense from valuation allowance | 0.0% | 1.4% | (1.4) |
| Income tax expense from continuing operations | 0.3% | 0.7% | (0.4) |
| Income tax expense from continuing operations | 0.3% | 2.1% | (1.8) |
| Income from continuing operations, net of income taxes | 3.1% | 2.8% | 0.3 |
| Less: Net income attributable to noncontrolling interest | 0.2% | 0.2% | - |
| Income from continuing operations attributable to MEAS | 2.9% | 2.6% | 0.4 |

Net Sales: Net sales increased $5,667 or 2.8% to $209,610 from $203,943. The increase in sales is mainly due to sales from 2009 Acquisitions. Organic sales, defined as net sales excluding sales attributed to 2009 Acquisitions of $16,079 in fiscal 2010 and $3,215 in fiscal 2009, declined $7,197 or 3.6%.

The global recession in 2008-2009 was one of the worst recessions in decades. The overall impact of the recession was not evident in the first half of fiscal 2009, but became more apparent in the third quarter of fiscal 2009. Decreases in fiscal 2009 sales were in all sectors, driven largely by sharp reductions in sales to passenger and non-passenger vehicle customers in U.S., Europe and Asia. Sales bottomed out in the fourth quarter of fiscal 2009, and began to stabilize during the first quarter of fiscal 2010. On a trailing quarter-to-quarter basis, sales increased each quarter during fiscal 2010, but overall, quarterly organic sales have not yet reached pre-recession levels. There is continued economic pressure in many areas of the global economy, and sales for most of our primary product lines declined relative to the prior year. Sales for our pressure products to automotive market and temperature sales were the two primary product lines to increase as compared to last year, mainly reflecting improvement in market conditions and broader production adoptions. Current market indicators remain mixed, which leads us to believe global demand will not quickly recover, and it is not yet clear whether the recovery is sustainable.

Gross Margin: Gross margin (gross profit as a percent of net sales) declined to approximately 38.8% from 42.0%. The decrease in margin is mainly due to lower organic sales and production volumes and the resulting decrease in leverage and overhead absorption, partially offset by certain cost control measures. As with all manufacturers, our gross margins are sensitive to overall volume of business in that certain costs are fixed. Since our overall level of organic business declined relative to last year, our gross margins and overall level of profits decreased accordingly. The decrease in production volumes not only reflects the decrease due to the alignment of production levels to match lower sales volumes, but also the consumption of inventory built-up as part of the China facility move. The average RMB/U.S. dollar exchange rate for 2010 remained stable as compared to last year.

On a continuing basis, our gross margin may vary due to product mix, sales volume, availability of raw materials, foreign currency exchange rates, and other factors.

Selling, General and Administrative: Overall, total selling, general and administrative ("total SG&A") expenses decreased $962 or 1.3% to $71,146, largely due to cost reductions. Total SG&A expenses as a percent of net sales decreased to 33.9% from 35.4%. The decrease in SG&A expenses as a percent of net sales is due to various cost control measures to reduce expenses while sales increased due to acquisitions. Organic SG&A costs, defined as total SG&A costs excluding SG&A costs associated with the 2009 Acquisitions of approximately $4,500 in fiscal 2010 and approximately $1,200 in fiscal 2009, decreased approximately $4,300 to $66,696. Partially offsetting the reductions in costs, the Company accrued approximately $1,700 for bonuses for fiscal 2010. In direct response to the global economic recession, management implemented several cost control initiatives, including reductions in headcount. Additionally, organic SG&A declined because of the decrease in organic sales, since a portion of our total SG&A costs are variable and fluctuate with sales.

Non-cash equity based compensation: Non-cash equity based compensation increased $276 to $3,218 from $2,942. The increase in non-cash equity based compensation is mainly due to the higher quantity of options granted and higher valuation of non-cash equity based compensation. The increase in the valuation of non-cash equity based compensation is primarily the result of the increase in the Company's stock price, higher volatility and quantity of options issued with the annual grants in 2010 relative to the annual grant in fiscal 2009. Additionally, this fiscal year the annual stock option grant was in July, as compared to November last year. Total compensation cost related to share based payments not yet recognized totaled $2,889 at March 31, 2010, which is expected to be recognized over a weighted average period of approximately 1.3 years.

Amortization of acquired intangibles and deferred financing costs: Amortization of acquired intangible assets and deferred financing costs increased $392 to $6,001 from $5,609. The increase in amortization expense is due to higher amortization expense associated with the 2009 Acquisitions and the write-off of certain deferred financing costs. Amortization expense for intangible assets is higher during the first years after an acquisition because, among other things, the order back-log is fully amortized during the initial year. Additionally, during the three months ended June 30, 2009, the Company expensed approximately $190 in deferred financing costs due to the amendment to the credit facility which resulted in a reduction in the principal amount of availability under the revolving credit facility. Amortization of acquired intangible assets is expected to decrease in fiscal 2011 as compared to fiscal 2010, assuming no acquisitions. However, amortization of deferred financing costs is expected to increase with the costs incurred with refinancing of the Company's primary credit facility and at March 31, 2010, the Company had approximately $704 in deferred financing costs that will be written-off in the first quarter of fiscal 2011 as part of the new credit facility.

Interest expense, net: Interest expense increased $818 to $3,899 from $3,081. The increase in interest expense is primarily because prior year interest expense was lower since the Company capitalized interest costs incurred on a portion of its debt during the construction of the China facility, and no such amounts were capitalized during the current year. Also contributing to the increase in interest expense was the increase in average interest rates. Average interest rates increased this year to about 4.8% from 4.3% last year. Average total outstanding debt was $75,302 in 2010, as compared to an average amount outstanding of $75,040 in 2009.

Foreign Currency Exchange Gain: The increase in foreign currency exchange gain mainly reflects the increase in the gain associated with the changes in the value of the U.S. dollar relative to the Euro, and the decrease in foreign currency exchange losses associated with the value of the RMB relative to the U.S. dollar. Over the past few years, the Company has had foreign currency exchange losses due to the appreciation of the RMB relative to the U.S. dollar, but during 2010, the value of the RMB relative to the U.S. dollar remained relatively stable as compared to 2009, and as such, there was a significant decrease in the related foreign currency exchange loss. The higher foreign currency exchange gain is the result of the depreciation of the value of the U.S. dollar relative to the Euro during the first part of fiscal 2010. The Company continues to be impacted by volatility in foreign currency exchange rates, including the impact of the fluctuation of the U.S. dollar relative to the RMB, Euro and Swiss franc.

Other expense (income): Other expense (income) consists of various non-operating items. Other expense (income) fluctuated to an expense of $93 from income of $253 mainly due to the income recognized for the $500 of Chinese incentives for foreign investments provided to the Company last year, which was partially offset by other non-operating expense items. There were no Chinese incentives in 2010.

Income Taxes: Income tax expense and deferred tax assets and liabilities reflect management's assessment of future taxes expected to be paid on items reflected in the Company's financial statements. The Company records the tax effect of discrete items and items that are reported net of their tax effects in the period in which they occur.

The Company's effective tax rate can be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, accruals related to contingent tax liabilities, the results of audits and examinations of previously filed tax returns, the implementation of tax planning strategies and changes in tax laws. The Company's effective tax rate for 2010 differs from the United States federal statutory rate of 35% primarily as a result of lower effective tax rates on certain earnings from operations outside of the United States. No provisions for United States income taxes have been made with respect to earnings that are planned to be reinvested indefinitely outside the United States. The amount of United States income taxes that may be applicable to such earnings is not readily determinable given the various tax planning alternatives the Company could employ should it decide to repatriate these earnings.

The amount of income taxes the Company pays is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. The Company is currently being audited by the U.S. Internal Revenue Service for fiscal years 2007 and 2008. If these audits result in assessments different from our reserves, our future results may include unfavorable adjustments to our tax liabilities. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for contingent tax liabilities. Based on these reviews, the results of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary.

Income tax expense decreased $3,503 to $733 from $4,236 last year. The fluctuation of income tax expense is mainly due to the $2,881 of income tax expense recorded in 2009 to establish the valuation allowance principally for certain deferred tax assets associated with the Company's German subsidiary, as well as due to the overall decrease in profit before taxes during 2010.

The overall effective tax rate ("ETR") (income tax expense divided by income from continuing operations before income taxes) was approximately 10% for the year ended March 31, 2010, as compared to 43% for the year ended March 31, 2009. The decrease in the ETR was due to, among other things, the income tax expense recorded in 2009 for the valuation allowance principally for certain deferred tax assets associated with the Company's German subsidiary, changing economic conditions and the shifting of expected profits and losses before taxes between tax jurisdictions with differing tax rates, as well as the impact of a number of other discrete tax adjustments.

In 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 is 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 12.5% 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 $651 recorded during the quarter ended September 30, 2009.

During the fourth quarter of fiscal 2010, the Company's subsidiary in China received approval from the Chinese tax authorities for High Tech New Enterprise ("HTNE") status. The new HTNE status for the Company will provide a reduced tax rate of 15% in China through December 31, 2011. To qualify for this reduced rate the Company must continue to meet various criteria in regard to its operations related to sales, research and development activity, and intellectual property rights. Accordingly, the Company recorded approximately $136 non-cash income tax expense

related to the revaluation of the net deferred tax assets in China resulting from the decrease in income tax rates.

The Company generally considers 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, the Company elected to distribute $7,500 of undistributed earnings from its Irish subsidiary, MEAS Ireland, and recorded a deferred tax liability and corresponding discrete income tax expense of $1,100 during the quarter ended September 30, 2009.

FISCAL YEAR ENDED MARCH 31, 2009 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2008 (in thousands, except percentages)

ANALYSIS OF CONSOLIDATED STATEMENT OF OPERATIONS

The following is a discussion and analysis of the Company's consolidated statement of operations in comparing fiscal 2009 to fiscal 2008.

| | Years Ended March 31, | | | Percent |
|---|---|---|---|---|
| | 2009 | 2008 | Change | Change |
| Net sales | $ 203,943 | $ 228,383 | $ (24,440) | (10.7) |
| Cost of goods sold | 118,333 | 133,022 | (14,689) | (11.0) |
| Gross profit | 85,610 | 95,361 | (9,751) | (10.2) |
| Operating expenses: | | | | |
| Selling, general, and administrative | 63,557 | 60,473 | 3,084 | 5.1 |
| Non-cash equity based compensation | 2,942 | 3,397 | (455) | (13.4) |
| Amortization of acquired intangibles | 5,609 | 3,610 | 1,999 | 55.4 |
| Total selling, general and administrative expenses | 72,108 | 67,480 | 4,628 | 6.9 |
| Operating income | 13,502 | 27,881 | (14,379) | (51.6) |
| Interest expense, net | 3,081 | 4,536 | (1,455) | (32.1) |
| Foreign currency exchange loss | 771 | 618 | 153 | 24.8 |
| Other income | (253) | (80) | (173) | 216.3 |
| Income before income taxes | 9,903 | 22,807 | (12,904) | (56.6) |
| Income tax expense due to tax law changes | - | 900 | (900) | (100.0) |
| Income tax expense due to valuation allowance | 2,881 | 74 | 2,807 | 3,793.2 |
| Income tax expense from continuing operations | 1,355 | 5,027 | (3,672) | (73.0) |
| Income tax expense from continuing operations | 4,236 | 6,001 | (1,765) | (29.4) |
| Income from continuing operations, net of income taxes | 5,667 | 16,806 | (11,139) | (66.3) |
| Less: Minority interest, net of income taxes | 388 | 364 | 24 | 6.6 |
| Income from continuing operations attributable to MEAS | $ 5,279 | $ 16,442 | $ (11,163) | (67.9) |

As part of our discussion and analysis, the following table summarizes certain items in our consolidated statements of income as a percentage of net sales.

| | Years ended March 31 , | | |
|---|---|---|---|
| | 2009 | 2008 | Change |
| Net sales | 100.0% | 100.0% | - |
| Cost of goods sold | 58.0% | 58.2% | (0.2) |
| Gross profit | 42.0% | 41.8% | 0.2 |
| Operating expenses: | | | |
| Selling, general, and administrative | 31.2% | 26.5% | 4.7 |
| Non-cash equity based compensation | 1.4% | 1.5% | (0.1) |
| Amortization of acquired intangibles | 2.8% | 1.6% | 1.2 |
| Total selling, general and administrative expenses | 35.4% | 29.5% | 5.9 |
| Operating income | 6.6% | 12.2% | (5.6) |

| | | | |
|---|---|---|---|
| Interest expense, net | 1.5% | 2.0% | (0.5) |
| Foreign currency exchange loss | 0.4% | 0.3% | 0.1 |
| Other income | (0.1) | 0.0% | (0.1) |
| Income before income taxes | 4.9% | 10.0% | (5.1) |
| Income tax expense due to tax law changes | 0.0% | 0.4% | (0.4) |
| Income tax expense due to valuation allowance | 1.4% | 0.0% | 1.4 |
| Income tax expense from continuing operations | 0.7% | 2.2% | (1.5) |
| Income tax expense from continuing operations | 2.1% | 2.6% | (0.5) |
| Income from continuing operations, net of income taxes | 2.8% | 7.4% | (4.6) |
| Less: Minority interest, net of income taxes | 0.2% | 0.2% | - |
| Income from continuing operations attributable to MEAS | 2.6% | 7.2% | (4.6) |

Net Sales: Net sales decreased $24,440 or 10.7% to $203,943 from $228,383. Organic sales, defined as net sales excluding sales attributed to Intersema and Visyx acquisitions through December 31, 2008 (the “2008 Acquisitions”) and net sales from the 2009 Acquisitions, decreased $34,033 or approximately 15.2%. The overall level of organic sales for fiscal 2009 was initially expected to be lower than the past few years; however, our expectation for lower organic sales was revised downward further during the year due primarily to the challenging global economic situation and uncertainty, as well as due to lower sales with the Company’s largest customer.

The recession was one of the worst recessions in decades, and there was downward economic pressure in most areas of the economy. As such, sales for the year were down significantly, led by sharp reductions in sales to passenger and non-passenger vehicle customers in U.S., Europe and Asia. The most notable decline was with the automotive market. While we believed sales were unusually hard hit as a result of customers reducing inventory levels to match lower anticipated demand for their products, it was not clear how much improvement we would see in future quarters or whether sales will continue to decline. Accordingly, we had taken decisive action, including aligning our labor workforce with the latest projected sale volumes. We lowered costs through significant reductions in headcount, cut management salaries and eliminated the Company's management bonus program and 401(k) match, and we had curtailed capital expenditures and implemented other cost control measures. Additionally, the Company modified the three business group structure, in order to, among other things, better focus on cross-selling of the differing sensor products and to address business conditions and certain changes within the management group, which resulted in one operating segment.

Gross Margin: Gross margin (gross profit as a percentage of net sales) increased slightly to approximately 42.0% from 41.8%. The improvement in gross margin was due to several factors, including product sales mix and various cost control measures, partially offset by the strengthening of the Chinese RMB, as well as the adverse impact on gross margins as a result of decrease in volumes. The more favorable product sales mix was largely associated with decreased proportion of sales of lower gross margin products. This included sales to the automotive sector, which carries a lower gross margin than our average. Additionally, our gross margins were adversely impacted by the lower levels of production and absorption of costs during the fourth quarter due to the consumption of inventory as part of the China facility move and to better align inventory levels with lower sales levels. During the first half of fiscal 2009, there had also been an adverse impact on margins due to increases in certain costs reflecting the pervasive impact on costs associated with higher prices for certain commodities. The average Chinese RMB exchange rate relative to the U.S. dollar appreciated approximately 7.7% as compared to last year. This translated to approximately $1,409 in annualized margin erosion. Finally, as with all manufacturers, our gross margins are sensitive to the overall volume of business in that certain costs are fixed. Since our overall level of business declined in 2009, our gross margins and overall level of profits decreased accordingly.

On a continuing basis, our gross margin may vary due to product mix, sales volume, availability of raw materials, foreign currency exchange rates, and other factors.

Selling, General and Administrative: Overall, total selling, general and administrative expenses ("Total SG&A") increased $4,628 or 6.9% to $72,108, due to costs associated with the 2008 and 2009 Acquisitions. As a percent of net sales, Total SG&A expenses increased to 35.4% from 29.5%. The increase in Total SG&A expenses as a percent of net sales was due to the decrease in net sales, which is the resulting impact of the global economic situation. Approximately $5,816 of the increase in Total SG&A was directly associated with the 2009 Acquisitions and the first nine months of fiscal 2009 for 2008 Acquisitions, and include higher salaries, amortization, facility expenses, professional fees, and acquisition related integration costs. There was also an increase of $494 in bad debt expense, reflecting the impact of the global economic recession.

Partially offsetting the increases in total SG&A discussed above are the impact of the various cost control measures implemented during fiscal 2009, including reductions in headcount and management salaries, as well as the suspension of bonuses and 401(k) match.

Stock Option Expense: Stock option expense decreased $455 to $2,942 from $3,397. The decrease in stock option expense was mainly due to the lower valuation of non-cash equity resulting primarily from the decrease in the Company's stock price, partially offset by higher volatility and quantity of options issued with the annual grant in fiscal 2009 relative to the annual grant in fiscal 2008. Total compensation cost related to share based payments not yet recognized totaled $3,885 at March 31, 2009, which was expected to be recognized over a weighted average period of approximately 1.8 years.

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Amortization of Acquired Intangibles: Amortization of acquired intangible assets increased $1,999 to $5,609, which was mainly due to higher amortization expense associated with the 2008 Acquisitions. Amortization expense for intangible assets is higher during the first year after an acquisition because, among other things, the order back-log is fully amortized during the initial year. The increase in amortization expense associated with the two 2009 Acquisitions consummated during the quarter ended March 31, 2009 was not as significant due to the close proximity of the transactions to our fiscal year end, but the impact on amortization expense related to these acquisitions was expected to be more significant next year.

Interest Expense, net: Interest expense decreased $1,455 to $3,081 for the year ended March 31, 2009 from $4,536 for the year ended March 31, 2008. The decrease in interest expense was primarily attributable to the decrease in average interest rates from 7.4% last year to approximately 4.32% this year, partially offset by an increase in the average total outstanding debt from an average amount outstanding of $64,186 in 2008 to $75,040 in 2009. Interest expense was expected to increase during next fiscal year due to higher interest rates.

Foreign Currency Exchange Gain or Loss: The increase in foreign currency exchange loss mainly reflected the continued appreciation of the RMB relative to the U.S. dollar, as well as the overall decrease in the U.S. dollar relative to the Euro as compared to last year. The Company continued to be impacted by volatility in foreign currency exchange rates, especially with the continued impact of the appreciation of the RMB relative to the U.S. dollar, even though the appreciation of the RMB was less in 2009 as compared to 2008, as well as the impact of the fluctuation of the U.S. dollar relative to the Euro and Swiss franc. The Company monitors such exposures and attempts to mitigate such exposures through various hedging strategies, but not all exposures are hedged.

Other expense and income: Other expense and income consist of various non-operating items, including sales of tooling and other miscellaneous income and expense items. The increase from income of $80 last year to income of $253 mainly reflects approximately $500 of Chinese incentives for foreign investments provided to the Company, partially offset by miscellaneous expense items.

Income Taxes: Total income tax expense during fiscal 2009 decreased $1,765 to $4,236 as compared to $6,001 for fiscal 2008. The decrease in income tax expense was principally due to lower taxable income in 2009, lower proportion of taxable income in higher tax rate jurisdictions, and favorable R&D tax credits in France, which were offset by a $2,881 income tax expense for the valuation allowances recorded at March 31, 2009 relating to deferred tax assets principally at our Germany subsidiary. The Company's income tax rate (income tax expense from continuing operations) increased to approximately 43% from approximately 26% the prior year. The increase in the income tax rate was mainly due to the valuation allowance recorded relating to the German subsidiary. This was partly offset by a higher proportion of income being generated in those tax jurisdictions with lower tax rates and additional R&D tax benefits in France.

The Company recorded a valuation allowance of approximately $2,881 at March 31, 2009 principally for certain deferred tax assets associated with net operating loss carryforwards ("NOLs") at our German subsidiary. This non-cash charge to income tax expense reduced our net income by $2,881 or approximately $0.20 per diluted share. Accounting guidance for such valuation allowances is strictly based on the evaluation of positive and negative evidence which can be objectively verified as to whether or not the NOLs will be utilized, and if positive evidence does not outweigh negative evidence, a valuation allowance is required. At March 31, 2009, our German subsidiary had cumulative losses over the past three years, primarily due to the decrease in profitability during the second half of fiscal 2009 as a result of the global recession. In weighing the positive and negative evidence, the negative evidence of three years of cumulative losses was considered to outweigh the positive evidence that the net operating losses were not subject to expiration, because the long-term prospects of future profitability in future periods was not considered objectively verifiable. We will continue to assess positive and negative evidence to determine if a valuation allowance is required in future periods.

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During the quarter ended September 30, 2007, the Company recorded a discrete non-cash tax adjustment of approximately $997 for the revaluation of the net deferred tax assets in Germany resulting from a decrease in tax rates enacted in 2007. The Company's combined tax rate in Germany decreased from 39% to 32%, as a result of the German Business Tax Reform 2008, which became effective on August 17, 2007.

The China tax authorities announced an increase in the income tax rate to 18% on December 27, 2007, effective on January 1, 2008. Also effective January 1, 2008 was a 5% withholding tax on the distribution of earnings. The Company submitted an application for high tech status last year, and it was not granted. The Company intended to continue to pursue qualification as a high technology enterprise with the Chinese authority, and if the Company is able to be awarded such qualification, the effective income tax rate will be reduced to 15% plus the 5% withholding tax. The current guidance on the China tax law, without award of high tech status, was a graduated statutory rate from 18% in calendar 2008 to 25% in calendar year 2012. The applicable statutory rate effective January 1, 2009 was 20% and increased January 1, 2010 to 22%.

During the quarter ended March 31, 2008, the Company recorded the reversal of a foreign income tax payable, which resulted in a reduction of income tax expense of $597 or almost $0.04 per diluted share. The income tax payable related to a foreign tax accrual from at least fiscal 2001, which had been previously considered a liability; however, based on discovered documentation, it was determined that the Company was not liable for the amounts previously accrued.

Our overall effective tax rate will continue to fluctuate based on the allocation of earnings among various taxing jurisdictions with varying tax rates and with changes in tax rates. We expect our overall effective tax rate to generally increase due to more of our total income being generated in Europe and the U.S., which are subject to a higher effective tax rates than our average and the impact of the increase in the China income tax rate.

Discontinued Operations. Discontinued operations primarily consist of the remaining activity associated with the note receivable received by the Company in connection with the sale of the Consumer segment. For the year ended March 31, 2009 and 2008, imputed interest income related to the promissory note receivable totaled $20 and $112, respectively, which is included in interest expense, net from continuing operations. The activity in 2010 reflects the final settlement and collection of the note receivable. The uncollected portion of the note receivable was written off as an expense from discontinued operations. Cash flows from discontinued operations are reported separately in the statement of cash flows, and the absence of cash flows from discontinued operations is not expected to have a material adverse affect on the future liquidity and capital resources of the Company.

LIQUIDITY AND CAPITAL RESOURCES

Cash balances totaled $24,293 at March 31, 2010, an increase of $810 as compared to March 31, 2009, reflecting, among other factors, the Company's ability to generate positive operating cash flows, which was offset by approximately $27,456 in payments to reduce debt and $5,217 of cash used for purchases of property and equipment.

The following schedule compares the primary categories of the consolidated statement of cash flows for the years ended March 31, 2010 and 2009:

| | Years ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | Change |
| Net cash provided by operating activities from continuing operations | $ 29,782 | $ 22,032 | $ 7,750 |
| Net cash used in investing activities from continuing operations | (5,250) | (26,609) | 21,359 |
| Net cash provided by (used in) financing activities from continuing operations | (23,931) | 7,513 | (31,444) |
| Net cash provided by discontinued operations | 141 | 540 | (399) |
| Effect of exchange rate changes on cash | 68 | (1,558) | 1,626 |
| Net change in cash and cash equivalents from continuing operations | $ 810 | $ 1,918 | $ (1,108) |

A key source of the Company's liquidity is our ability to generate operating cash flows. In spite of the global economic recession, the Company was able to generate positive operating cash flows, as a result of implementing initiatives to improve operating cash flows through working capital management and various cost control measures. Cash flows from operating working capital (changes in trade accounts receivables, inventory, and accounts payable) increased to $3,374 for the current year from $220 last year, with the single largest driver of current year operating cash flows from inventory consumption. Inventory balances decreased $4,307 as compared to last year because of the utilization of inventory built-up for the planned China facility move, as well as the reduction of inventory due to the decrease in projected sales. The change in accounts receivable was an increase during the current year reflecting the increase in sales during the fourth quarter, as compared to a decrease in accounts receivable last year due the overall decline in sales due to the recession. The increase in accounts payable corresponds to higher sales during the fourth quarter and the increase in accrued expenses reflects, among other things, higher accrued compensation related to the year end bonus and accrued interest. The fluctuation in the income taxes payable and income tax receivable reflects, among other things, the collection of certain research tax credits and the swing from income tax expense to income tax benefit in certain tax jurisdictions as a consequence of the change from a profit before taxes to a loss before taxes during the current year.

Historically, funding for acquisitions constitutes one of the more significant, if not the most significant use of the Company's cash. Net cash used in investing activities was $5,250 as compared to $26,609 last year. The prior year investing activities were higher because of higher capital spending due to the construction of the new China facility and the acquisitions of FGP and Atexis. There were no acquisitions during 2010, and the lower level of capital spending during the current year mainly reflects the non-recurring nature of the China facility, as well as various cost control measures in direct response to the recession.

The Company's most significant use of cash during 2010 was the repayment of debt. Net cash used in financing activities totaled $23,931 for the year ended March 31, 2010, as compared to $7,513 provided by financing activities last year. The Company's credit facilities are mainly utilized to fund acquisitions. The increase in debt payments reflects the Company's efforts to reduce debt levels. There was a decrease in borrowings as compared to last year since there were no acquisitions in 2010.

The effect of exchange rate changes on cash is the translation decrease or increase in cash due to the fluctuation of foreign currency exchange rates. For example, €1,000 is translated to $1,320 based on weighted average exchange

rates during fiscal 2009, but the same €1,000 is translated to $1,345 using weighted average exchange rates during fiscal 2010. The decrease in the current year impact of exchange rate changes relative to last year is primarily due to the relative stability of the U.S. dollar relative to the Euro and RMB when comparing exchange rates from one fiscal year end to the next.

The following schedule compares the primary categories of the consolidated statement of cash flows for the years ended March 31, 2009 and 2008:

| | Years ended March 31, | | |
|---|---|---|---|
| | 2009 | 2008 | Change |
| Net cash provided by operating activities from continuing operations | $ 22,032 | 33,235 | $ (11,203) |
| Net cash used in investing activities from continuing operations | (26,609) | (36,164) | 9,555 |
| Net cash provided by financing activities from continuing operations | 7,513 | 12,688 | (5,175) |
| Net cash provided by discontinued operations | 540 | 2,507 | (1,967) |
| Effect of exchange rate changes on cash | (1,558) | 1,590 | (3,148) |
| Net change in cash and cash equivalents from continuing operations | $ 1,918 | $ 13,856 | $ (11,938) |

The underlying reason for the decrease in overall operating cash flows is the economic recession, which reduced profitability and cash flows from operating working capital (trade accounts receivables, inventory, less accounts payable). Net income declined $11,163 and the fluctuation in cash flows provided by operating working capital went from a source of operating cash flows of $6,455 in 2008 to a source of operating cash flow of $220 during 2009. In spite of implementing various strategies to improve our cash position and working capital management, the Company was not able to offset the impact of the recession. The Company closely monitors trade receivables and collections. Inventory balances increased as compared to 2008 mainly because of the build up in inventory for the planned China facility move. We expected to reduce inventory levels during the next quarters with the completion of the move to our new China facility and to better align inventory levels with current levels of sales. Other items impacting operating cash flows include the fluctuation of income tax payable from a $2,148 use of cash in 2008 to a $1,546 source of cash in 2009, and the $3,305 increase in depreciation and amortization expense associated with the 2008 Acquisitions and the 2009 Acquisitions. In 2008, deferred taxes mainly reflect the discrete adjustment recorded due to the change in German income tax rates, and 2009 deferred taxes mainly represent the valuation allowance recorded for the deferred tax assets of our subsidiary in Germany, both of which are non-cash transactions. The 2008 operating cash flows also included the $1,275 payment for the settlement of certain litigation.

Net cash used in investing activities was $26,609 as compared to $36,164 in 2008. Overall capital spending levels of $14,001 reflect the increase associated with the new China facility, as well as various capital projects for production equipment. The 2008 investing activity included the acquisitions of Intersema and Visyx for $23,386, and the cash flows associated with the acquisitions of Atexis and FGP in the current year combined were approximately $12,667.

Net cash provided by financing activities totaled $7,513 for the year ended March 31, 2009, a decrease of $5,175 as compared to the $12,688 provided by financing activities in 2008. Borrowings under the credit facility are generally for acquisitions, and 2008 acquisitions had a larger purchase price as compared to 2009 acquisitions. Additionally, the offsetting payments for repayments of debt were lower this year as compared to last year because the Company retained cash to fund operations in light of the economic downturn and since interest rates were relatively low. Proceeds from exercise of options were lower in 2009 because fewer options were exercised due to the decrease in the Company’s stock price.

Long-Term Debt:

Refinancing: The Company entered into a new Credit Agreement (the "Senior Secured Credit Facility") dated June 1, 2010 among JPMorgan Chase Bank, N.A., as administrative agent and collateral agent (in such capacity, the "Senior Secured Facility Agents"), Bank America, N.A., as syndication agent, and certain other parties thereto (the "Credit Agreement") to refinance the Amended and Restated Credit Agreement effective as of April 1, 2006 among the Company, General Electric Capital Corporation, as agent and a lender, and certain other parties thereto and to provide for the working capital needs of the Company including to effect permitted acquisitions. The Senior Secured Facility consists of a $110,000 revolving credit facility (the "Revolving Credit Facility") with a $50,000 accordion feature enabling expansion of the Revolving Credit Facility to $160,000. The Revolving Credit Facility has a variable interest rate based on either the London Inter-bank Offered Rate ("LIBOR") or the ABR Rate (prime based rate) with applicable margins ranging from 2.00% to 3.25% for LIBOR based loans or 1.00% to 2.25% for ABR Rate loans. The applicable margins may be adjusted quarterly based on a change in the leverage ratio of the Company. The Senior Secured Credit Facility also includes the ability to borrow in currencies other than U.S. dollars, such as the Euro and Swiss Franc, up to $66,000. Commitment fees on the unused balance of the Revolving Credit Facility range from 0.375% to 0.50% per annum of the average amount of unused balances. The Revolving Credit Facility will expire on June 1, 2014 and all balances outstanding under the Revolving Credit Facility will be due on such date. The Company has provided a security interest in substantially all of the Company's U.S. based assets as collateral for the Senior Secured Facility and private placement of credit facilities entered into by the Company from time to time not to exceed $50,000, including the Prudential Shelf Facility (as defined below). The Senior Secured Credit Facility includes an inter-creditor arrangement with Prudential (as defined below) and is on a pari pasu (equal force) basis with the Prudential Shelf Facility.

The Senior Secured Facility includes specific financial covenants for maximum leverage ratio and minimum fixed charge coverage ratio, as well as customary representations, warranties, covenants and events of default for a transaction of this type. Consolidated EBITDA for debt covenant purposes is the Company's consolidated net income determined in accordance with GAAP minus the sum of income tax credits, interest income, gain from extraordinary items for such period, any non-cash gains, and gains due to fluctuations in currency exchange rates, plus the sum of any provision for income taxes, interest expense, loss from extraordinary items, any aggregate net loss during such period arising from the disposition of capital assets, the amount of non-cash charges for such period, amortized debt discount for such period, losses due to fluctuations in currency exchange rates and the amount of any deduction to consolidated net income as the result of any grant to any members of the management of the Company of any equity interests. The Company's leverage ratio consists of total debt less unrestricted cash maintained in U.S. bank accounts which are subject to control agreements in favor of JPMorgan Chase Bank, N.A., as Collateral Agent, to Consolidated EBITDA. Adjusted fixed charge coverage ratio is Consolidated EBITDA less capital expenditures divided by fixed charges. Fixed charges are the last twelve months of scheduled principal payments, taxes paid in cash and consolidated interest expense. All of the aforementioned financial covenants are subject to various adjustments, many of which are detailed in the Credit Agreement.

On June 1, 2010, the Company entered into a Master Shelf Agreement (the "Prudential Shelf Facility") with Prudential Investment Management, Inc. ("Prudential") whereby Prudential agreed to purchase up to $50,000 of senior secured notes (the "Senior Secured Notes") issued by the Company. Prudential purchased two Senior Secured Notes each for $10,000 and the remaining $30,000 of such Senior Secured Notes may be purchased at the discretion of Prudential or one or more of its affiliates upon the request of the Company. The Prudential Shelf Facility has a fixed interest rate of 5.70% and 6.15% for each of the two $10,000 Senior Secured Notes issued by the Company and the Senior Secured Notes issued there under are due on June 1, 2015 and 2017, respectively. The Prudential Shelf Facility includes specific financial covenants for maximum total leverage ratio and minimum fixed charge coverage ratio consistent with the Senior Secured Credit Facility, as well as customary representations, warranties, covenants and events of default. The Prudential Shelf Facility includes an inter-creditor arrangement with the Senior Secured Facility Agents and is on a pari pasu (equal force) basis with the Senior Secured Facility.

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 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 accrued 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 could be adjusted quarterly based on a change in specified financial ratios. Borrowings under the line were 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 was not based on any borrowing base requirements, but borrowings were limited by certain financial covenants. The term loan portion of our credit facility was not changed with the Amended Credit Facility. The term loan was 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 had 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 our debt covenant requirements, as a result of the decline in our sales and profitability resulting from the impact of the global recession. The Amendment provided the Company with additional flexibility under its Covenant EBITDA, 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 was 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 Covenant 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 was prohibited from consummating any business acquisitions without lender approval during the covenant relief period, which ends March 31, 2010. The Company was in compliance with applicable financial covenants at March 31, 2010.

Adjusted Covenant EBITDA was the Company's earnings before interest, income taxes, stock options, depreciation and amortization for last twelve months, in addition to the last twelve months of Adjusted EBITDA for acquisitions. Adjusted fixed charge coverage ratio was Adjusted Covenant EBITDA less adjusted capital expenditures divided by fixed charges. Fixed charges were 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 was 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 Covenant EBITDA. All of the aforementioned financial covenants were subject to various adjustments, many of which were 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 included such items as excluding capital expenditures associated with the new China facility from capital expenditures, and adjustments to Adjusted Covenant EBITDA for certain items such as litigation settlement costs, severance costs and other items considered non-recurring in nature.

As of March 31, 2010, the Company utilized the LIBOR based rate for the term loan and for $52,000 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 4.3% at March 31, 2010. As of March 31, 2010, the outstanding borrowings on the revolving credit facility, which is classified as long-term debt, were $53,547, and the Company had an additional $36,453 available under the revolving credit facility. The Company's borrowing capacity was limited by financial covenant ratios, including earnings ratios, and as such, our borrowing capacity was subject to change. At March 31, 2010, the Company could have borrowed an additional $27,500.

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 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 March 31, 2010, there was $5,000 outstanding borrowings against the China Credit Facility classified as short-term debt and MEAS China could borrow approximately $5,000.

Promissory Notes: In connection with the acquisition of Intersema, the Company issued Swiss franc denominated unsecured promissory notes ("Intersema Notes") totaling 10,000 Swiss francs. At March 31, 2010, the unpaid balance of the Intersema Notes totaled $4,698, of which $2,349 is 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.

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 a sales performance based earn-out 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 March 31, 2010, since the contingencies were not yet determinable or not yet achieved.

LIQUIDITY: Management assesses the Company's liquidity in terms of available cash, our ability to generate cash and our ability to borrow to fund operating, investing and financing activities. The Company continues to generate cash from operating activities, and the Company remains in a positive financial position with availability under existing credit facilities. The Company will continue to have cash requirements to support working capital needs, capital expenditures, earn-outs related to acquisitions, and to pay interest and service debt. We believe the Company's financial position, generation of cash and the existing credit facility, in addition to the potential to refinance or obtain additional financing will be sufficient to meet funding of day-to-day and material short and long-term commitments for the foreseeable future.

At March 31, 2010, we had approximately $24,293 of available cash and approximately $27,500 of borrowing capacity, after considering the limitations set on the Company's total leverage under the revolving credit facility. This cash balance includes cash of $8,113 in China, which is subject to certain restrictions on the transfer to another country because of currency control regulations. The Company's cash balances are generated and held in numerous locations throughout the world, including substantial amounts held outside the United States. The Company utilizes a variety of tax planning and financing strategies in an effort to ensure that its worldwide cash is available in the locations in which it is needed. Wherever possible, cash management is centralized and intra-company financing is used to provide working capital to the Company's operations. Cash balances held outside the United States could be repatriated to the United States, but, under current law, would potentially be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted or prohibited by local laws. Where local restrictions prevent an efficient intra-company transfer of funds, the Company's intent is that cash balances would remain in the foreign country and it would meet United States liquidity needs through ongoing cash flows, external borrowings, or both.

ACCUMULATED OTHER COMPREHENSIVE INCOME: Accumulated other comprehensive income primarily consists of foreign currency translation adjustments, which relate to the Company's European and Asian operations and the effects of changes in the exchange rates of the U.S. dollar relative to the Euro, Chinese RMB, Hong Kong dollar, Japanese Yen and Swiss franc.

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

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

SEASONALITY: As a whole, there is no material seasonality in our sales. However, general economic conditions have an impact on our business and financial results, and certain end-use markets experience certain seasonality. For example, European sales are often lower in summer months and OEM sales are often stronger immediately preceding and following the introduction of new products.

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INFLATION: We compete on the basis of product design, features, and value. Accordingly, our prices generally have kept pace with inflation, notwithstanding that inflation in the countries where our subsidiaries are located has been consistently higher than inflation in the United States. Increases in labor costs have not had a significant impact on our business because most of our employees are in China, where prevailing labor costs are low. However, we have experienced increases in materials costs, especially during the end of fiscal 2008 and during the first part of fiscal 2009, and as a result, we suffered a decline in margin during those periods. During the second half of fiscal 2009 and all of fiscal 2010, material costs stabilized as a result of the global economic recession.

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

The Company has acquired and divested of certain assets, including the acquisition of businesses and the sale of the Consumer business. In connection with these acquisitions and divestitures, the Company often provides representations, warranties and/or indemnities to cover various risks and unknown liabilities, such as claims for damages arising out of the use of products or relating to intellectual property matters, commercial disputes, environmental matters or tax matters. The Company cannot estimate the potential liability from such representations, warranties and indemnities because they relate to unknown conditions. However, the Company does not believe that the liabilities relating to these representations, warranties and indemnities will have a material adverse effect on the Company's financial position, results of operations or liquidity.

The Company's Second Restated Certificate of Incorporation requires it to indemnify to the full extent authorized or permitted by law any person made, or threatened to be made a party to any action or proceeding by reason of his or her service as a director, officer or employee of the Company, or by reason of serving at the request of the Company as a director, officer or employee of any other entity, subject to limited exceptions. The Company's Amended and Restated By-laws provide for similar indemnification rights. In addition, the Company intends to execute with each of its directors and executive officers an indemnification agreement with the Company which will provide for substantially similar indemnification rights and under which the Company will agree to pay expenses in advance of the final disposition of any such indemnifiable proceeding. While the Company maintains insurance for this type of liability, a significant deductible applies to this coverage and any such liability could exceed the amount of the insurance coverage.

AGGREGATE CONTRACTUAL OBLIGATIONS: As of March 31, 2010, the Company's contractual obligations, including payments due by period, are as follows:

| Contractual Obligations: | Payment due by period | | | | |
|---|---|---|---|---|---|
| | Total | 1 year | 2-3 years | 4-5 years | > 5 years |
| Long-term debt obligations | $ 72,028 | $ 9,644 | $ 62,203 | $ 181 | $ - |
| Interest obligation on long-term debt | 5,810 | 3,104 | 2,699 | 7 | - |
| Capital lease obligations | 256 | 193 | 63 | - | - |
| Operating lease obligations | 23,692 | 3,592 | 6,437 | 5,706 | 7,957 |
| Purchase obligations | 5,228 | 5,190 | 38 | - | - |
| Other long-term obligations* | 2,047 | 1,943 | 104 | - | - |

| | | | | | |
|---|---|---|---|---|---|
| Total | $ 109,061 | $ 23,666 | $ 71,544 | $ 5,894 | $ 7,957 |

* Other long-term obligations on the Company's balance sheet under GAAP primarily consist of obligations under warranty polices, foreign currency contracts and tax liabilities, but exclude earn-out contingencies associated with acquisitions since the satisfaction of the contingencies is not determinable or achieved at March 31, 2010. The timing of cash flows associated with these obligations is based upon management's estimate over the terms of these arrangements and are largely based on historical experience.

The above contractual obligation table excludes certain contractual obligations, such as earn-outs related to acquisitions or possible severance payments to certain executives, since these contractual commitments are not accrued as liabilities at March 31, 2010. These contractual obligations are accrued as liabilities when the respective contingencies are determinable or achieved.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates, foreign currency exchange rates, commodity and credit risk, 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 broad-based business activities help to reduce the impact that volatility in any particular area or related areas may have on its operating earnings 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. For example, based on the $66,547 of total debt outstanding under these facilities at March 31, 2010, an annual interest rate increase of 100 basis points would increase interest expense and decrease our pre-tax profitability by $665. We do not currently hedge this interest rate exposure.

Commodity Risk: The Company uses a wide range of commodities in our products, including steel, non-ferrous metals and petroleum based products, as well as other commodities required for the manufacture of our sensor products. Changes in the pricing of commodities directly affect our results of operations and financial condition. We attempt to pass increases in commodity costs to our customers, and we do not currently hedge such commodity price exposures.

Credit Risk: Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and temporary investments, foreign currency forward contracts and trade accounts receivable. The Company is exposed to credit losses in the event of nonperformance by counter parties to its financial instruments. The Company places cash and temporary investments with various high-quality financial institutions throughout the world. Although the Company does not obtain collateral or other security to secure these obligations, it does periodically monitor the third-party depository institutions that hold our cash and cash equivalents. Our emphasis is primarily on safety and liquidity of principal and secondarily on maximizing yield on those funds. In addition, concentrations of credit risk arising from trade accounts receivable are limited due to the diversity of the Company's customers. The Company performs ongoing credit evaluations of its customers' financial conditions and the Company does not obtain collateral, insurance or other security. Notwithstanding these efforts, the current distress in the global economy may increase the difficulty in collecting accounts receivable.

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 United States. 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 stockholders' equity. A 10% appreciation in major currencies relative to the U.S. dollar at March 31, 2010 would result in a reduction of stockholders' equity of approximately $10,576 .

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 RMB, 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 United States 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 Item 1, Business, Foreign Operations for details concerning annual net sales invoiced from our facilities within the U.S. and outside of the U.S. and as a percentage of total net sales for the last three years, as well as net assets and the related functional currencies. 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 consolidated financial statements.

The RMB did not appreciate during fiscal 2010, but appreciated by 2.5% and 9.0% during 2009 and 2008, respectively. The Chinese government no longer pegs the RMB to the US dollar, but established a currency policy letting the RMB 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, when the U.S. dollar weakens relative to the RMB, our operating profits decrease. Based on our net exposure of RMB to U.S. dollars for the fiscal year ended March 31, 2010 and forecast information for fiscal 2011, we estimate a negative operating income impact of approximately $174 for every 1% appreciation in RMB against the U.S. dollar (assuming no price increases passed to customers, and no associated cost increases or currency hedging). 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, Irish and Germany subsidiaries have more sales in Euros than expenses in Euros and the Company’s Swiss subsidiary has more expenses in Swiss francs than sales in Swiss francs. As such, if the U.S. dollar weakens relative to the Euro and Swiss franc, our operating profits increase in France, Ireland and Germany but decline in Switzerland. Based on the net exposures of Euros and Swiss francs to the U.S. dollars for the fiscal year ended March 31, 2010, we estimate a positive operating income impact of approximately $12 and a negative income impact of less than $30 for every 1% appreciation in the Euro and Swiss franc, respectively, relative to the U.S. dollar (assuming no price increases passed to customers, and associated cost increases or currency hedging).

The Company has entered into 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 gross notional amounts totaling $1,605 with exercise dates through June 2010 at an average exchange rate of $1.32 (Euro to U.S. dollar conversion rate). With these Euro/U.S. dollar contracts, for every 1% depreciation of the Euro, the Company would be exposed to an additional fx losses of approximately $16. Since these derivatives are not designated as hedges for accounting purposes, changes in their fair value are recorded in the 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer with the participation of management evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2010. The term "disclosure controls and procedures," as defined in Rules 13(a)-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2010, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

(b) MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management's assessment of and conclusion on the effectiveness of internal controls over financial reporting excluded the evaluation of internal controls for the Company's joint venture in Japan, Nikkiso-THERM ("NT"). The Company does not have the ability to dictate or modify the controls of NT, and the Company does not have the ability, in practice, to assess those controls. At March 31, 2010, NT represented $5,108 and $4,582 in total assets and net sales, respectively.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management concluded that our internal control over financial reporting was effective as of March 31, 2010.

KPMG LLP, an independent registered public accounting firm, has audited the Company's internal controls over financial reporting as of March 31, 2010, as stated in their report which appears below and under Item 15 of this Annual Report on Form 10-K.

(c) ATTESTATION REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

We have audited Measurement Specialties, Inc.'s (the Company) internal control over financial reporting as of March 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) . Measurement Specialties, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting (Item 9A(b)). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Measurement Specialties, Inc. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's assessment of and conclusion on the effectiveness of internal controls over financial reporting excluded the evaluation of internal controls for the Company's joint venture in Japan, Nikkiso-THERM (NT). NT is an entity consolidated pursuant to FIN 46R. The Company does not have the ability to dictate or modify the controls of NT, and the Company does not have the ability, in practice, to assess those controls. At March 31, 2010, NT represented $5,108 in total assets and $4,582 in net sales.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Measurement Specialties, Inc. and subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss),

and cash flows for each of the years in the three-year period ended March 31, 2010, and our report dated June 9, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Norfolk, Virginia
June 9, 2010

(d) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting (as defined in Rules 13(a)-15(f) and 15(d)-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Apart from certain information concerning our Code of Conduct which is set forth below, other information required by this Item is incorporated herein by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on or about September 21, 2010, including the information set forth under the captions “Election of Directors”, “Committees of the Board of Directors”, and “Executive Officers”, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the fiscal year ended March 31, 2010.

We have a Code of Conduct that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Conduct is available to shareholders at our website, www.meas-spec.com. The Company will promptly post on its website any amendment to the Code of Conduct or a waiver of a provision there under, rather than filing with the SEC any such amendment or waiver as part of a Current Report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on or about September 21, 2010, including the information set forth under the captions “Executive Compensation” and “Compensation Committee Interlocks and Insider Participation”, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the fiscal year ended March 31, 2010.

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

The following table provides information with respect to the equity securities that are authorized for issuance under our compensation plans as of March 31, 2010:

EQUITY COMPENSATION PLAN INFORMATION

For the Year Ended March 31, 2010:

| | NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS | WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS | NUMBER OF SHARES REMAINING FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN(A)) |
|---|---|---|---|
| EQUITY COMPENSATION PLANS APPROVED BY SECURITY HOLDERS | 3,065,184 | $ 16.42 | 133,986 |

| | | | | |
|---|---|---|---|---|
| EMPLOYEE STOCK PURCHASE PLAN | 4,876 | | 14.71 | 214,267 |
| | 3,070,060 | $ | 16.42 | 348,253 |

The other information required by this Item is incorporated by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on or about September 21, 2010, including the information set forth under the caption “Beneficial Ownership of Measurement Specialties Common Stock.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on or about September 21, 2010, including the information set forth under the captions “Executive Agreements and Related Transactions”, “Committees of the Board of Directors” and “Election of Directors” which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the fiscal year ended March 31, 2010.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the applicable information in the proxy statement for our annual meeting of shareholders to be held on or about September 21, 2010, including the information set forth under the caption “Fees Paid to Our Independent Registered Public Accounting Firm”, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the fiscal year ended March 31, 2010.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following consolidated financial statements and schedules are filed at the end of this report, beginning on page F-l. Other schedules are omitted because they are not required or are not applicable or the required information is shown in the consolidated financial statements or notes thereto.
(b) See Exhibit Index following this Annual Report on Form 10-K.



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

MEASUREMENT SPECIALTIES, INC.

By: /s/ FRANK GUIDONE

Frank Guidone

Chief Executive Officer
Date: June 9, 2010

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

| Signature | Title | Date |
|---|---|---|
| /s/ Frank Guidone<br>Frank Guidone | President, Chief Executive Officer and Director (Principal Executive Officer) | June 9, 2010 |
| /s/ Mark Thomson<br>Mark Thomson | Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | June 9, 2010 |
| /s/ Morton L. Topfer<br>Morton L. Topfer | Chairman of the Board | June 9, 2010 |
| /s/ John D. Arnold<br>John D. Arnold | Director | June 9, 2010 |
| /s/ Satish Rishi<br>Satish Rishi | Director | June 9, 2010 |
| /s/ R. Barry Uber<br>R. Barry Uber | Director | June 9, 2010 |
| /s/ Kenneth E. Thompson<br>Kenneth E. Thompson | Director | June 9, 2010 |

EXHIBIT INDEX

EXHIBIT INDEX

| NUMBER | DESCRIPTION |
|---|---|
| 3.1 | Second Restated Certificate of Incorporation of Measurement Specialties, Inc. (1) |
| 3.2 | Bylaws of Measurement Specialties, Inc. (2) |
| 4.1 | Specimen Certificate for shares of common stock of Measurement Specialties, Inc. (3) |
| 10.1 | Measurement Specialties, Inc. 2006 Stock Option Plan (4) |
| 10.2 | Measurement Specialties, Inc. 2006 Employee Stock Purchase Plan (4) |
| 10.3 | Measurement Specialties, Inc. 2008 Equity Incentive Plan (5) |
| 10.4 | Measurement Specialties, Inc. 1998 Stock Option Plan (6) |
| 10.5 | Measurement Specialties, Inc. 2003 Stock Option Plan (7) |
| 10.12 | Sublease Agreement, dated August 1, 2002, between Quicksil, Inc. and Measurement Specialties, Inc. (3) |
| 10.14 | Agreement for the Sale and Purchase of the Entire Issued Share Capital of Measurement Ltd. by and between Fervent Group Limited and Kenabell Holding Limited. (8) |
| 10.17 | Amended and Restated Credit Agreement dated April 3, 2006 by and among Measurement Specialties, Inc., the US Credit Parties signatory thereto, Wachovia Bank, National Association, JPMorgan Chase Bank, N.A, and General Electric Capital Corporation. (9) |
| 10.18 | Amended and Restated Executive Employment Agreement dated November 6, 2007 by and between Measurement Specialties, Inc. and Frank Guidone. (10) |
| 10.19 | Employment Agreement dated March 13, 2007 by and between Measurement Specialties, Inc. and Mark Thomson. (11) |
| 10.20 | Agreement for the purchase of entire share capital of Intersema Microsystems SA dated December 28, 2007 by and among Measurement Specialties, Inc., Mr. Manfred Knutel and Mr. Hans Peter Salvisberg. (10) |
| 10.21 | Fourth Amendment and Waiver to Credit Agreement dated December 10, 2007 by and among Measurement Specialties, Inc., the US Credit Parties signatory thereto, Wachovia Bank, National Association, JPMorgan Chase Bank, N.A, Bank of America, N.A., Royal Bank of Canada, and General Electric Capital Corporation. (12) |
| 10.22 | Fifth Amendment and Waiver to Credit Agreement dated October 24, 2008 by and among Measurement Specialties, Inc., the US Credit Parties signatory thereto, Wachovia Bank, National Association, |

JPMorgan Chase Bank, N.A, Bank of America, N.A., Royal Bank of Canada, and General Electric Capital Corporation. (13)

| | |
|---|---|
| 10.23 | Sixth Amendment and Waiver to Credit Agreement dated January 29, 2009 by and among Measurement Specialties, Inc., the US Credit Parties signatory thereto, Wachovia Bank, National Association, JPMorgan Chase Bank, N.A, Bank of America, N.A., Royal Bank of Canada, and General Electric Capital Corporation. (13) |
| 10.24 | Seventh Amendment and Waiver to Credit Agreement dated April 27, 2009 by and among Measurement Specialties, Inc., the US Credit Parties signatory thereto, Wachovia Bank, National Association, JPMorgan Chase Bank, N.A, Bank of America, N.A., Royal Bank of Canada, and General Electric Capital Corporation. (14) |
| 10.25 | Credit facility Agreement by and among Measurement Specialties (China) Ltd. and China Merchants Bank Co. Ltd. dated November 3, 2009. (15) |
| 10.26 | Senior Secured Credit Facility dated June 1, 2010 by and among, Measurement Specialties, Inc., the U.S. Credit Parties signatory thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, Bank America, N.A., as syndication agent, and certain other parties thereto. (16) |
| 10.27 | Master Shelf Agreement dated June, 2010 by and among, Measurement Specialties, Inc., the U.S. Credit Parties signatory thereto, Prudential Investment Management, Inc., whereby Prudential agreed to purchase up to $50,000 of senior secured notes issued by the Company. (16) |
| 21.1 | Subsidiaries. |
| 23.1 | Consent of KPMG LLP. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 1 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-Q filed on November 7, 2007 and incorporated herein by reference. |
| 2 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on July 5, 2001 and incorporated herein by reference. |
| 3 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Registration Statement on Form S-1 (File No. 333-57928) and incorporated herein by reference. |
| 4 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Proxy Statement for the Annual Meeting of Shareholders filed on July 28, 2006 and incorporated herein by reference. |
| 5 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Proxy Statement for the Annual Meeting of Shareholders filed on July 29, 2008 and incorporated herein by reference. |

6 Previously filed with the Securities and Exchange Commission as an Exhibit to the Proxy Statement for the Annual Meeting of Shareholders filed on August 18, 1998 and incorporated herein by reference.

7 Previously filed with the Securities and Exchange Commission as an Exhibit to the Proxy Statement for the Annual Meeting of Shareholders filed on July 29, 2003 and incorporated herein by reference.

| | |
|---|---|
| 8 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on December 6, 2005 and incorporated herein by reference. |
| 9 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on April 6, 2006 and incorporated herein by reference. |
| 10 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-Q filed on February 6, 2008 and incorporated herein by reference. |
| 11 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on June 12, 2007 and incorporated herein by reference. |
| 12 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on December 12, 2007 and incorporated herein by reference. |
| 13 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-Q filed on February 4, 2009 and incorporated herein by reference. |
| 14 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on April 29, 2009 and incorporated herein by reference. |
| 15 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on November 4, 2009 and incorporated herein by reference. |
| 16 | Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on June 1, 2010 and incorporated herein by reference. |

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Measurement Specialties, Inc.:

We have audited the accompanying consolidated balance sheets of Measurement Specialties, Inc. and subsidiaries (the Company) as of March 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended March 31, 2010. In connection with our audits of consolidated financial statements, we have also audited financial statement schedule II. These consolidated financial statements and the related financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the related financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Measurement Specialties, Inc. and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Measurement Specialties, Inc.'s internal control over financial reporting as of March 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 9, 2010 expressed an unqualified opinion on the effectiveness of Measurement Specialties, Inc.'s internal control over financial reporting.

/s/ KPMG LLP

Norfolk, Virginia
June 9, 2010

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| (Amounts in thousands, except per share amounts) | Years ended March 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Net sales | $ 209,610 | $ 203,943 | $ 228,383 |
| Cost of goods sold | 128,241 | 118,333 | 133,022 |
| Gross profit | 81,369 | 85,610 | 95,361 |
| Selling, general, and administrative expenses | 71,146 | 72,108 | 67,480 |
| Operating income | 10,223 | 13,502 | 27,881 |
| Interest expense, net | 3,899 | 3,081 | 4,536 |
| Foreign currency exchange loss (gain) | (987) | 771 | 618 |
| Other expense (income) | 93 | (253) | (80) |
| Income from continuing operations, before income taxes | 7,218 | 9,903 | 22,807 |
| Income tax expense from continuing operations | 733 | 4,236 | 6,001 |
| Income from continuing operations, net of income taxes | 6,485 | 5,667 | 16,806 |
| Loss from discontinued operations, net of income taxes | (142) | - | - |
| Net income | 6,343 | 5,667 | 16,806 |
| Less: Net income attributable to noncontrolling interest | 427 | 388 | 364 |
| Net income attributable to Measurement Specialties, Inc. ("MEAS") | $ 5,916 | $ 5,279 | $ 16,442 |
| | | | |
| Amounts attributable to MEAS common shareholders: | | | |
| Income from continuing operations, net of income taxes | $ 6,058 | $ 5,279 | $ 16,442 |
| Loss from discontinued operations attributable to MEAS | (142) | - | - |
| Net income | $ 5,916 | $ 5,279 | $ 16,442 |
| | | | |
| Earnings per common share - Basic: | | | |
| Income from continuing operations, net of income taxes | $ 0.42 | $ 0.36 | $ 1.14 |
| Loss from discontinued operations attributable to MEAS | (0.01) | - | - |
| Net income - Basic | $ 0.41 | $ 0.36 | $ 1.14 |
| | | | |
| Earnings per common share - Diluted: | | | |
| Income from continuing operations, net of income taxes | $ 0.41 | $ 0.36 | $ 1.13 |
| Loss from discontinued operations attributable to MEAS | (0.01) | - | - |
| Net income - Diluted | $ 0.40 | $ 0.36 | $ 1.13 |
| | | | |
| Weighted average shares outstanding - Basic | 14,498 | 14,465 | 14,360 |
| Weighted average shares outstanding - Diluted | 14,686 | 14,575 | 14,510 |

See accompanying notes to consolidated financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| (Amounts in thousands) | March 31, 2010 | March 31, 2009 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 24,293 | $ 23,483 |
| Accounts receivable trade, net of allowance for doubtful accounts of $464 and $898, respectively | 31,224 | 28,830 |
| Inventories, net | 41,483 | 45,384 |
| Deferred income taxes, net | 1,720 | 2,091 |
| Prepaid expenses and other current assets | 3,149 | 3,968 |
| Other receivables | 757 | 458 |
| Due from joint venture partner | 918 | 1,824 |
| Promissory note receivable | - | 283 |
| Income taxes receivable | 997 | - |
| Total current assets | 104,541 | 106,321 |
| Property, plant and equipment, net | 44,795 | 46,875 |
| Goodwill | 99,235 | 99,176 |
| Acquired intangible assets, net | 23,613 | 27,478 |
| Deferred income taxes, net | 6,607 | 7,440 |
| Other assets | 1,184 | 1,319 |
| Total assets | $ 279,975 | $ 288,609 |

See accompanying notes to consolidated financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| (Amounts in thousands, except share amounts) | March 31, 2010 | March 31, 2009 |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term debt | $ 5,000 | $ - |
| Current portion of long-term debt | 2,295 | 2,356 |
| Current portion of capital lease obligations | 193 | 797 |
| Current portion of promissory notes payable | 2,349 | 2,176 |
| Accounts payable | 18,144 | 15,381 |
| Accrued expenses | 4,719 | 3,041 |
| Accrued compensation | 8,075 | 5,656 |
| Income taxes payable | - | 1,838 |
| Deferred income taxes, net | 182 | 24 |
| Other current liabilities | 3,197 | 3,394 |
| Total current liabilities | 44,154 | 34,663 |
| | | |
| Revolver | 53,547 | 71,407 |
| Long-term debt, net of current portion | 6,488 | 12,769 |
| Capital lease obligations, net of current portion | 63 | 250 |
| Promissory notes payable, net of current portion | 2,349 | 4,352 |
| Deferred income taxes, net | 2,969 | 4,455 |
| Other liabilities | 1,292 | 1,085 |
| Total liabilities | 110,862 | 128,981 |
| | | |
| Equity: | | |
| Measurement Specialties, Inc. ("MEAS") shareholders' equity: | | |
| Serial preferred stock; 221,756 shares authorized; none outstanding | - | - |
| Common stock, no par; 25,000,000 shares authorized; 14,534,431 and 14,483,622 shares issued and outstanding, respectively | - | - |
| Additional paid-in capital | 85,338 | 81,948 |
| Retained earnings | 73,134 | 67,218 |
| Accumulated other comprehensive income | 8,524 | 8,110 |
| Equity attributable to MEAS | 166,996 | 157,276 |
| Noncontrolling interest | 2,117 | 2,352 |
| Total equity | 169,113 | 159,628 |
| Total liabilities and shareholders' equity | $ 279,975 | $ 288,609 |

See accompanying notes to consolidated financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED MARCH 31, 2010, 2009 AND 2008

| (Dollars in thousands) | Shares of Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Equity Attributable to MEAS | Noncontrolling Interest | Total | Comprehensive Income (loss) |
|---|---|---|---|---|---|---|---|---|
| Balance, March 31, 2007 | 14,280,364 | $ 73,399 | $ 45,497 | $ 1,741 | $ 120,637 | $ 1,628 | $ 122,265 | |
| Comprehensive income: | | | | | | | | |
| Net income | | - | 16,442 | - | 16,442 | 364 | 16,806 | $ 16,806 |
| Currency translation adjustment, net of income taxes of $77 | | - | - | 13,389 | 13,389 | 204 | 13,593 | 13,593 |
| Comprehensive income | | | | | | | | $ 30,399 |
| Non-cash equity based compensation (SFAS 123R) | | 3,397 | - | - | 3,397 | - | 3,397 | |
| Amounts from exercise of stock options | 160,484 | 1,664 | - | - | 1,664 | - | 1,664 | |
| Tax benefit from exercise of stock options | | 260 | - | - | 260 | - | 260 | |
| Noncontrolling interest distributions | | - | - | - | - | (243) | (243) | |
| Balance, March 31, 2008 | 14,440,848 | $ 78,720 | $ 61,939 | $ 15,130 | $ 155,789 | $ 1,953 | $ 157,742 | |
| Comprehensive income: | | | | | | | | |
| Net income | | - | 5,279 | - | 5,279 | 388 | 5,667 | $ 5,667 |
| Currency translation adjustment, net of income taxes of $281 | | - | - | (7,020) | (7,020) | 11 | (7,009) | (7,009) |
| Comprehensive income (loss) | | | | | | | | $ (1,342) |
| Non-cash equity based | | 2,942 | - | - | 2,942 | - | 2,942 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| compensation | | | | | | | | |
| Amounts from exercise of stock options | 42,774 | 276 | - | - | 276 | - | 276 | |
| Tax benefit from exercise of stock options | | 10 | - | - | 10 | - | 10 | |
| Balance, March 31, 2009 | 14,483,622 | $ 81,948 | $ 67,218 | $ 8,110 | $ 157,276 | $ 2,352 | $ 159,628 | |
| Comprehensive income: | | | | | | | | |
| Net income | | - | 5,916 | - | 5,916 | 427 | 6,343 | $ 6,343 |
| Currency translation adjustment, net of income taxes of $278 | | - | - | 414 | 414 | 153 | 567 | 567 |
| Comprehensive income | | | | | | | | $ 6,910 |
| Non-cash equity based compensation | | 3,218 | - | - | 3,218 | - | 3,218 | |
| Amounts from exercise of stock options | 50,809 | 172 | - | - | 172 | - | 172 | |
| Noncontrolling interest distributions | | - | - | - | - | (815) | (815) | |
| Balance, March 31, 2010 | 14,534,431 | $ 85,338 | $ 73,134 | $ 8,524 | $ 166,996 | $ 2,117 | $ 169,113 | |

See accompanying notes to consolidated financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Amounts in thousands) | Years ended March 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 6,343 | $ 5,667 | $ 16,806 |
| Loss from discontinued operations | 142 | - | - |
| Income from continuing operations | 6,485 | 5,667 | 16,806 |
| | | | |
| Adjustments to reconcile net income to net cash provided by operating activities from continuing operations: | | | |
| Depreciation and amortization | 14,072 | 13,210 | 9,905 |
| Loss on sale of assets | 63 | 94 | 94 |
| Non-cash equity based compensation | 3,218 | 2,942 | 3,397 |
| Unrealized foreign currency exchange loss (gain) | - | 90 | (1,088) |
| Deferred income taxes | (1,944) | 768 | 3,307 |
| Research tax credits | 1,677 | 974 | 714 |
| Net change in operating assets and liabilities: | | | |
| Accounts receivable, trade | (2,237) | 13,217 | (1,165) |
| Inventories | 4,307 | (2,516) | 3,670 |
| Prepaid expenses, other current assets and other receivables | 674 | 654 | (516) |
| Other assets | 909 | 354 | (579) |
| Accounts payable | 1,304 | (10,481) | 3,950 |
| Accrued expenses, accrued compensation, other current and other liabilities | 4,293 | (4,487) | (1,837) |
| Accrued litigation settlement expenses | - | - | (1,275) |
| Income taxes payable and income taxes receivable | (3,039) | 1,546 | (2,148) |
| Net cash provided by operating activities from continuing operations | 29,782 | 22,032 | 33,235 |
| Cash flows from investing activities from continuing operations: | | | |
| Purchases of property and equipment | (5,217) | (14,001) | (12,818) |
| Proceeds from sale of assets | 67 | 59 | 40 |
| Acquisition of business, net of cash acquired | (100) | (12,667) | (23,386) |
| Net cash used in investing activities from continuing operations | (5,250) | (26,609) | (36,164) |
| Cash flows from financing activities from continuing operations: | | | |
| Repayments of long-term debt | (6,382) | (3,017) | (2,675) |
| Borrowings of short-term debt, revolver and notes payable | 5,000 | 17,196 | 46,457 |
| Repayments of revolver, capital leases and notes payable | (21,074) | (6,952) | (30,802) |
| Payment of deferred financing costs | (832) | - | (1,973) |
| Noncontrolling interest distributions | (815) | - | (243) |
| Tax benefit on exercise of stock options | - | 10 | 260 |
| Proceeds from exercise of options and employee stock purchase plan | 172 | 276 | 1,664 |
| Net cash provided by (used in) financing activities from continuing operations | (23,931) | 7,513 | 12,688 |
| | | | |
| Net cash used in operating activities of discontinued operations | - | - | - |
| Net cash provided by investing activities of discontinued operations | 141 | 540 | 2,507 |
| Net cash provided by discontinued operations | 141 | 540 | 2,507 |

| | | | |
|---|---|---|---|
| Net change in cash and cash equivalents | 742 | 3,476 | 12,266 |
| Effect of exchange rate changes on cash | 68 | (1,558) | 1,590 |
| Cash, beginning of year | 23,483 | 21,565 | 7,709 |
| Cash, end of period | $ 24,293 | $ 23,483 | $ 21,565 |
| | | | |
| Supplemental Cash Flow Information: | | | |
| Cash paid or received during the period for: | | | |
| Interest paid | $ (3,793) | $ (3,104) | $ (4,698) |
| Income taxes paid | (4,592) | (2,381) | (6,896) |
| Income taxes refunded | 780 | 594 | 49 |
| Non-cash investing and financing transactions: | | | |
| Promissory note receivable from sale of discontinued operations | - | - | 10,046 |
| Capital additions in other current liabilities | - | - | 1,173 |

See accompanying notes to consolidated financial statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008

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

1. DESCRIPTION OF BUSINESS

Description of Business: Measurement Specialties, Inc. (the "Company") is a global leader in the design, development and manufacture of sensors and sensor-based systems for original equipment manufacturers ("OEM") and end users, based on a broad portfolio of proprietary technology and typically characterized by the MEAS brand name. We are a global business and we believe we have a high degree of diversity when considering our geographic reach, broad range of products, number of end-use markets and breadth of customer base. 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 globally a wide range of sensors that use advanced technologies to measure precise ranges of physical characteristics. These sensors are used for engine and vehicle, medical, general industrial, consumer and home appliance, military/aerospace, and test and measurement 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, temperature and fluid property 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, torque sensors and mechanical resonators.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

In accordance with 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 consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries (the "Subsidiaries") and its joint venture in Japan. In accordance with accounting standards for consolidation of variable interest entities, the Company consolidates its joint venture in Japan, its one variable interest entity ("VIE") for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company has made the following acquisitions which are included in the consolidated financial statements as of the effective date of acquisition (See Note 5):

| Acquired Company | Effective Date of Acquisition | Country |
|---|---|---|
| Elekon Industries U.S.A., Inc. ('Elekon') | June 24, 2004 | U.S.A. |
| Entran Devices, Inc. and Entran SA ('Entran') | July 16, 2004 | U.S.A. and France |
| Encoder Devices, LLC ('Encoder') | July 16, 2004 | U.S.A. |
| Humirel, SA ('Humirel') | December 1, 2004 | France |

| | | |
|---|---|---|
| MWS Sensorik GmbH (‘MWS’) | January 1, 2005 | Germany |
| Polaron Components Ltd (‘Polaron’) | February 1, 2005 | United Kingdom |
| HL Planartechnik GmbH (‘HLP’) | November 30, 2005 | Germany |
| Assistance Technique Experimentale (‘ATEX’) | January 19, 2006 | France |
| YSIS Incorporated (‘YSI Temperature’) | April 1, 2006 | U.S.A. and Japan |
| BetaTherm Group Ltd. (‘BetaTherm’) | April 1, 2006 | Ireland and U.S.A. |
| Visyx Technologies, Inc. (‘Visyx’) | November 20, 2007 | U.S.A. |
| Intersema Microsystems SA (‘Intersema’) | December 28, 2007 | Switzerland |
| R.I.T. SARL (“Atexis”) | January 30, 2009 | France and China |
| FGP Instrumentation and related companies GS Sensors, and ALS (collectively, “FGP”) | January 30, 2009 | France |

The above companies, except for Encoder, Polaron and Visyx, which were asset purchases, became direct or indirect wholly-owned subsidiaries of the Company, upon consummation of their respective acquisitions.

With the purchase of YSI Temperature, the Company acquired a 50 percent ownership interest in Nikkiso-THERM ("NT"), a joint venture in Japan. This joint venture is included in the consolidated financial statements of the Company as of March 31, 2010 and 2009 and for the years ended March 31, 2010, 2009 and 2008. Noncontrolling interests recorded in the consolidated financial statements represent the ownership interest in NT not owned by the Company. Net sales of the consolidated VIE for the years ended March, 31, 2010, 2009 and 2008 totaled $4,582 , $4,090, and $3,674, respectively. Net income of the consolidated VIE for the years ended March, 31, 2010, 2009 and 2008 totaled $854, $776, and $728, respectively. Non-controlling interest for the years ended March 31, 2010, 2009 and 2008 is net of income taxes of $341, $295, and $240, respectively.

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 consolidated statement of financial position are as follows at March 31, 2010 and 2009:

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| Assets: | | |
| Cash | $ 1,127 | $ 1,206 |
| Accounts receivable | 1,534 | 1,176 |
| Inventory | 709 | 660 |
| Other assets | 462 | 456 |
| Due from joint venture partner | 918 | 1,824 |
| Property and equipment | 358 | 203 |
| | 5,108 | 5,525 |
| | | |
| Liabilities: | | |
| Accounts payable | 248 | 194 |
| Accrued expenses | 193 | 195 |
| Income tax payable | 290 | 276 |
| Other liabilities | 144 | 156 |
| | $ 875 | $ 821 |

Reclassifications: The presentation of certain prior year information for minority interest in the consolidated statements of operations, consolidated balance sheets, consolidated statements of shareholders' equity and consolidated statements of cash flows have been reclassified to noncontrolling interests. The presentation of certain prior year information for deferred income tax assets and deferred tax liabilities have been reclassified to conform with the current year presentation. The Company had previously reported deferred income tax assets net of deferred income tax liabilities, and current year amounts are netted on a jurisdictional basis.

Use of Estimates: The preparation of the consolidated financial statements, in accordance with U.S. generally accepted accounting principles, requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial

statements and revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the 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.

Cash and Cash Equivalents: The Company considers highly liquid investments with original maturities of up to three months, when purchased, to be cash equivalents. There were no cash equivalents at March 31, 2010 and 2009. At March 31, 2010 and 2009, approximately $8,113 and $4,188, respectively, of the Company's cash balances were maintained in China, which are subject to certain restrictions and are not freely transferable to another country without adverse tax consequences because of exchange control regulations, but can be used without such restrictions for general business purposes in China.

Accounts Receivable: Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The majority of the Company's accounts receivable is due from manufacturers of electronic, automotive, military, medical and industrial products. Credit is extended based on an evaluation of a customers' financial condition and, generally, collateral is not required. Accounts receivable are generally due within 30 to 90 days and are stated at amounts due from customers net of allowances for doubtful accounts and other sales allowances. The Company maintains an allowance for doubtful accounts for estimated losses inherent in accounts receivable. Accounts receivable outstanding longer than the contractual payment terms are considered past due. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due based on contractual terms, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company reviews its allowance for doubtful accounts quarterly. Actual uncollectible accounts could exceed the Company's estimates and changes to its estimates will be accounted for in the period of change. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

Inventories: Inventories are valued at the lower of cost or market ('LCM') using the first-in first-out method. In evaluating LCM, management also considers, if applicable, other factors, including known trends, market conditions, currency exchange rates and other such issues. If the utility of goods is impaired by damage, deterioration, obsolescence, changes in price levels or other causes, a loss shall be charged as cost of sales in the period which it occurs.

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

Generally, products that have existed in inventory for 12 months with no usage and that have no current demand or no expected demand will be considered obsolete and fully reserved. Obsolete inventory approved for disposal is written-off against the reserve. Market conditions surrounding products are also considered periodically to determine if there are any net realizable valuation matters, which would require a write-down of any related inventories. If market or technological conditions change, it may result in additional inventory reserves and write-downs, which would be accounted for in the period of change. The level of inventory reserves reflects the nature of the industry whereby technological and other changes, such as customer buying requirements, result in impairment of inventory. Cash flows from the purchase and sale of inventory are included in cash flows from operating activities.

Other Receivables: Other receivables consist of various non-trade receivables such as value added tax (VAT) receivables as a result of our European operations.

Other Current Liabilities: Other current liabilities consist of various non-trade payable liabilities such as commissions, warranties, interest, dilapidation liability, sales and property taxes payable.

Promissory Note Receivable: Promissory note receivable, which was fully settled in fiscal 2010, was recorded net of imputed interest and relates to the financing arrangement with the sale of the Consumer business (See Note 6). The note was unsecured. Amounts collected on this promissory note receivable are included in net cash provided by investing activities from discontinued operations in the consolidated statements of cash flows.

Property, Plant and Equipment: Property, plant and equipment are stated at cost less accumulated depreciation. Plant and equipment under capital leases are stated at the present value of the minimum lease payments, and are amortized on a straight-line basis over the shorter of the lease term or estimated useful lives of the asset. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease terms or the estimated useful lives of the assets. Normal maintenance and repairs of property and equipment are expensed as incurred. Renewals, betterments and major repairs that materially extend the useful life of property and equipment are capitalized.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has a valuation allowance for certain deferred tax assets. The Company assesses all available positive and negative evidence to determine if a valuation allowance is required. Accounting guidance for such valuation allowances is strictly based on the evaluation of positive and negative evidence which can be objectively verified as to whether it is more likely than not the deferred tax assets will be utilized, and if positive evidence does not outweigh negative evidence, a valuation allowance is required. Positive evidence would include such items as tax planning strategies and current and future taxable income.

Foreign Currency Translation and Transactions: The functional currency of the Company’s foreign operations is the applicable local currency. The foreign subsidiaries’ assets and liabilities are translated into United States dollars using exchange rates in effect at the balance sheet date and their operations are translated using the average exchange rates prevailing during the year. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss).

The Company is subject to foreign exchange risk for foreign currency denominated transactions, such as receivables and payables. Foreign currency transaction gains and losses are recorded in foreign currency exchange gain or loss in the Company’s consolidated statements of operations.

Goodwill: Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination.

In accordance with applicable accounting standards for evaluating goodwill for impairment, management assesses goodwill for impairment at the reporting unit level on an annual basis at fiscal year end or more frequently under certain circumstances. The goodwill impairment test is a two step test. Under the first step, the fair value of the reporting unit is compared to its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit, and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit’s goodwill over the fair value. The fair value is allocated in a manner similar to a purchase price allocation, in accordance with accounting for business combinations. The residual fair value after this allocation is the fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need

to be performed.

In evaluating goodwill for impairment, the fair value of the Company's reporting unit was determined using the implied fair value approach for fiscal years ended March 31, 2010 and 2008, and for the year ended March 31, 2009, the fair value of the Company's reporting unit was determined using the discounted cash flow method. The implied fair value approach consists of comparing the Company's market capitalization to the Company's book value, and if the market capitalization exceeds book value, there is no impairment of goodwill. Based on our analyses and the applicable guidelines, there was no impairment of the Company's goodwill at March 31, 2010, 2009, and 2008 (See Note 5).

Business Combinations: Acquisitions are recorded as of the purchase date, and are included in the consolidated financial statements from the date of acquisition. In all acquisitions, the purchase price of the acquired business is allocated to the assets acquired and liabilities assumed at their fair values on the date of the acquisition. The fair values of these items are based upon management's best estimates. Certain of the acquired assets are intangible in nature, including customer relationships, patented and proprietary technology, covenants not to compete, trade names and order backlog, which are stated at cost less accumulated amortization. Amortization is computed by the straight-line method over the estimated useful lives of the assets. The excess purchase price over the amounts allocated to the assets is recorded as goodwill. All such valuation methodologies, including the determination of subsequent amortization periods, involve significant judgments and estimates. Different assumptions and subsequent actual events could yield materially different results.

Purchased intangibles and goodwill are usually not deductible for tax purposes in stock acquisitions. However, purchase accounting requires for the establishment of deferred tax liabilities on purchased intangible assets (excluding goodwill) to the extent the carrying value for financial reporting exceeds the tax basis.

Long-Lived Assets: The Company accounts for the impairment of long-lived assets and amortizable intangible assets in accordance with applicable standards for accounting for the impairment or disposal of long-lived assets. Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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

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

If the recoverability of these assets is unlikely because of the existence of one or more of the above-mentioned factors, an impairment analysis is performed using projected undiscounted cash flow at the lowest level at which cash flows is identifiable. In the event impairment is indicated, fair value is determined using the discounted cash flow method, appraisal or other accepted techniques.

In step 1, management must make assumptions regarding estimated future cash flows to determine whether there is an indication of impairment, and in the event step 2 is required, the fair value of these assets is determined. Other factors could include, among other things, quoted market prices, or other valuation techniques considered appropriate based on the circumstances. If these estimates or related assumptions change in the future, an impairment charge may need to be recorded. Impairment charges would be included in our consolidated statements of operations, and would result in reduced carrying amounts of the related assets on our consolidated balance sheets.

As of March 31, 2010, there were no overall indicators of impairment; however, the Company performed an impairment analysis for two European sites for which no impairment was identified. At March 31, 2009, the Company performed an impairment analysis for long-lived assets, due to triggering events which included the decline in the Company's stock price, change in market capitalization relative to net book value, and decrease in financial performance relative to historical operating results. In evaluating long-lived assets and amortizable intangible assets for impairment, there was no impairment identified by our analysis indicating the carrying amount of an asset was not recoverable in 2009. There were no indicators of potential impairment in 2008.

Revenue Recognition: The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Shipping and other transportation costs charged to buyers are recorded in both sales and cost of sales. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of income.

Certain products may be sold with a provision allowing the customer to return a portion of products. The Company provides for allowances for returns based upon historical and estimated return rates. The amount of actual returns could differ from these estimates. Changes in estimated returns are accounted for in the period of change.

Revenues for contractual arrangements with multiple elements or deliverables are allocated pursuant to applicable accounting for revenue arrangements with multiple deliverables. Revenues are recognized for the separate elements when the product or services have value on a stand-alone basis, and fair value of the separate elements exists and, in arrangements that include a general right of refund relative to the delivered element, performance of the undelivered element is considered probable and substantially in the Company's control. While determining fair value and identifying separate elements require judgment, generally fair value and the separate elements are identifiable as those elements are sold and unaccompanied by other elements.

Shipping and Handling: Shipping and handling costs are recorded in cost of sales in the Company's consolidated statement of operations. Shipping and handling costs billed to customers are included in sales.

Research and Development and Advertising Costs: The Company conducts research and development activities for the purpose of developing new products, enhancing the functionality, effectiveness, ease of use and reliability of the Company's existing products and expanding applications of the Company's products. Research and development and advertising costs are expensed as incurred. Research and development costs amounted to $10,626, $10,826, and $9,852, for the years ended March 31, 2010, 2009 and 2008, respectively. Customer funded research and development was $2,008, $1,451, and $1,018, for the fiscal years ended March 31, 2010, 2009, and 2008, respectively. Advertising costs are included in operating expenses in the Company's consolidated statement of operations and are expensed when the advertising or promotion is published. Advertising expenses for the years ended March 31, 2010, 2009, and 2008 were approximately $45, $151, and $276, respectively.

Warranty Reserve: The Company's sensor products generally are marketed under warranties to end users of up to one year. Factors affecting the Company's warranty liability include the number of products sold and historical and anticipated rates of claims and costs per claim. The Company provides for estimated product warranty obligations at the time of sale, based on its historical warranty claims experience and assumptions about future warranty claims. This estimate is susceptible to changes in the near term based on introductions of new products, product quality improvements and changes in end user application and/or behavior.

The following table summarizes the warranty reserve:

| | Years ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Total Warranty Reserve - Beginning | $ 256 | $ 400 | $ 401 |
| Warranties issued during the period | 116 | (59) | 419 |
| Costs to repair and replace products | (164) | (85) | (420) |
| Total Warranty Reserve - Ending | $ 208 | $ 256 | $ 400 |

Commitments and Contingencies: Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Such accruals are adjusted as further information develops or circumstances change.

Comprehensive Income: Comprehensive income consists of net income for the period and the impact of unrealized foreign currency translation adjustments, net of income taxes.

Stock-Based Payment: The Company began accounting for compensation cost for all share based payments granted subsequent to April 1, 2006 based on the grant date fair value using the Black-Scholes option pricing model, in accordance with share-based payment accounting provisions. The Company utilized the modified prospective approach. Under the modified prospective approach, the applicable accounting standards for share-based payments is applied to new awards and to unvested awards that were outstanding on April 1, 2006, as well as those that are subsequently modified, repurchased or cancelled. The Company's results for the years ended March 31, 2010, 2009, and 2008 include $3,218, $2,942 and $3,397, respectively, of operating expenses for share-based compensation.

The Company receives a tax deduction for certain stock options and stock option exercises during the period the options are exercised, generally for the excess of the fair value of the stock over the exercise price of the options at the exercise date. The Company has elected to report the entire tax benefit from the exercise of equity instruments as a financing cash inflow. Since the Company is currently in a net operating loss carry-forward position, the Company has consistently applied the tax-law-ordering approach, whereby the tax benefits are considered realized for current-year exercises of share-based compensation awards.

Net cash proceeds from the exercise of stock options were $172, $276, and $1,664 for the years ended March 31, 2010, 2009 and 2008, respectively. There was no excess income tax benefit realized from stock option exercises for the year ended March 31, 2010, and the income tax benefit realized for the years ended March 31, 2009 and 2008 from stock option exercises was $10 and $260, respectively.

Leases: The Company follows the applicable accounting principles for leases for its operating and capital leases. Lease costs, including escalations, are provided for using the straight-line basis over the lease period. The Company leases certain production equipment and automobiles which are considered capital lease arrangements. Applicable accounting standards require the capitalization of leases meeting certain criteria, with the related asset being recorded in property, plant and equipment, and an offsetting amount recorded as a liability.

Derivative Instruments: The Company accounts for derivatives and hedging activities in accordance with applicable accounting guidelines, which establish accounting and reporting standards for derivative instruments and hedging activities and require that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Changes in the fair value of those instruments will be reported in earnings or other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative and the effect on the consolidated financial statements will depend on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of cash flows of the asset or liability hedged.

The Company has a number of forward purchase currency contracts to manage the Company's exposures to fluctuations in the U.S. dollar relative to the Euro and RMB and the Euro relative to the Japanese yen. These currency contracts are entered into to hedge foreign exchange exposure, although they are undesignated for accounting purposes. Since these currency contracts do not meet the requirements for hedge accounting, changes in the fair value of these instruments are recognized in other income as gains and losses, rather than in other comprehensive income.

Capitalized Interest: The Company's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year. No interest costs were capitalized during 2010. During 2009 and 2008, interest costs capitalized as part of the construction of the new facility in China totaled $325 and $281, respectively.

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Pensions: With the purchase of Intersema, the Company acquired a defined benefit pension plan. The Company follows the standards for employers' accounting for defined benefit pension and other postretirement plans. Accounting for pensions and other postretirement benefit plans requires management to make several estimates and assumptions (See Note 10). These include the expected rate of return from investment of the plans' assets and the expected retirement age of employees as well as their projected earnings and mortality. In addition, the amounts recorded are affected by changes in the interest rate environment because the associated liabilities are discounted to their present value. Management makes these estimates based on the company's historical experience and other information that it deems pertinent under the circumstances (for example, expectations of future stock market performance).

This statement requires the Company to recognize in the statement of financial position the funded status of the defined benefit pension plan as the difference between the fair value of the plan assets and the benefit obligation. The Company is required to recognize the changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Actuarial gains and losses are generally amortized subject to the corridor, over the average remaining service life of the Company's active employees. Certain pension disclosures are not made since the plan as a whole is considered immaterial to the consolidated financial statements.

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 were 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, because the Company did not have any acquisitions in 2010.

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 new postretirement plan disclosure requirements were not material to the consolidated financial statements.

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.

In December 2009, the FASB issued new accounting standards addressing accounting and reporting for decreases in ownership of a subsidiary. The update is a scope clarification and revises the accounting requirements for decreases in ownership of a subsidiary that were originally contained in accounting for non-controlling interests. The revised decrease in ownership provisions require an entity that ceases to have a controlling interest in a subsidiary or group of assets that is a business to recognize a gain or loss on the transaction and include an amount for the remeasurement of any retained investment to fair value. A decrease in ownership that does not result in a loss of control is accounted for as an equity transaction with no gain or loss recognized for the difference between the carrying amount of the portion of the subsidiary or group of assets that is sold and consideration received from the buyer. The update was effective for the Company on April 1, 2009. The adoption of these new accounting standards did not have a material impact to the Company, however, the requirements of this update will be required to be applied to any future transactions that results in a decreases in ownership of businesses owned by the Company.

Recently Issued Accounting Pronouncements:

In October 2009, the FASB issued new accounting standards for multiple-deliverable revenue arrangements. These new standards establish the accounting and reporting guidance for arrangements, including multiple revenue-generating activities, and provide amendments to the criteria for separating deliverables and measuring and allocating arrangement consideration to one or more units of accounting. The amendments also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor’s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. These new accounting standards requirements are effective for fiscal years beginning after June 15, 2010, which is the Company’s 2012 fiscal year. Early adoption of the standard is permitted and various options for prospective or retroactive adoption are available. The Company is currently in the process of reviewing and evaluating the impact of these new requirements, but the impact is not expected to be material on the Company’s results of operations or 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 currently consolidates its one VIE, N-T, for which the Company is considered the primary beneficiary. The Company is in the process of evaluating the new accounting principles for VIEs, and based on its preliminary assessment, the Company expects the adoption of these new accounting standards may result in the deconsolidation of N-T, which would decrease in the Company’s net sales for fiscal years 2010, 2009 and 2008 by $4,582, $4,090 and $3,674, respectively. There would be no impact on net assets or net income attributable to MEAS with the deconsolidation of N-T.

3. INVENTORIES

Inventories and inventory reserves for slow-moving, obsolete and lower of cost or market exposures at March 31, 2010 and 2009 are summarized as follows:

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| Raw Materials | $ 24,022 | $ 22,270 |
| Work-in-Process | 6,207 | 4,622 |
| Finished Goods | 15,017 | 21,981 |
| | 45,246 | 48,873 |
| Inventory Reserves | (3,763) | (3,489) |
| | $ 41,483 | $ 45,384 |

4. 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:

| | March 31, 2010 | March 31, 2009 | Useful Life |
|---|---|---|---|
| Production equipment & tooling | $ 48,884 | $ 45,894 | 3-10 years |
| Building and leasehold improvements | 24,101 | 24,301 | 39 to 45 years or lesser of useful life or remaining term of lease |
| Furniture and equipment | 13,620 | 13,663 | 3-10 years |
| Construction-in-progress | 864 | 1,122 | |
| Total | 87,469 | 84,980 | |
| Less: accumulated depreciation and amortization | (42,674) | (38,105) | |
| | $ 44,795 | $ 46,875 | |

Total depreciation was $8,071, $7,602 and $6,295 for the years ended March 31, 2010, 2009 and 2008, respectively. Property and equipment included $256 and $1,047 in capital leases at March 31, 2010 and 2009, respectively.

5. ACQUISITIONS, GOODWILL IMPAIRMENT TESTING, AND ACQUIRED INTANGIBLES

Acquisitions: As part of its growth strategy, the Company made fourteen acquisitions since June 2004 with total purchase price exceeding $167,000, of which two acquisitions were made during each year ended 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 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 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 2010 and 2009:

| | |
|---|---|
| Balance March 31, 2008 | $ 95,710 |
| Attributable to 2008 acquisitions | (657) |
| Attributable to 2009 acquisitions | 5,175 |
| Effect of foreign currency translation | (1,052) |
| Goodwill impairment | - |
| Balance March 31, 2009 | $ 99,176 |
| Attributable to 2009 acquisitions | (5) |
| Effect of foreign currency translation | 64 |
| Goodwill impairment | - |
| Balance March 31, 2010 | $ 99,235 |

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 on January 15 of each year. 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:

| | | |
|---|---|---|
| Assets: | | |
| 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 |
| | | |
| Liabilities: | | |
| 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:

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| | |
|---|---|
| Assets: | |
| 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 |
| | |
| Liabilities: | |
| 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 |

Goodwill Impairment Testing: Goodwill is tested for impairment annually at fiscal year end and more frequently if events and circumstances indicate that the asset might be impaired. The goodwill impairment test is a two step test. Under the first step, the fair value of the reporting unit is compared to its carrying value (including goodwill). If the

fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit, and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss would be recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis.

We perform our goodwill impairment analysis at one level below the operating segment level. The Company has one operating and reporting segment, a sensor business, under the guidelines established with disclosures about segments of an enterprise and related information. The goodwill impairment analysis is performed at the reporting unit level. A reporting unit is the same as, or one level below, an operating segment. The Company's reporting unit for the purposes of the goodwill impairment analysis is the Company's sensor business.

In evaluating goodwill for impairment, the fair value of the Company's reporting unit was determined using the implied fair value approach for fiscal year ended March 31, 2010, and the discounted cash flow analysis was utilized for fiscal year ended March 31, 2009. Based on our assessment at March 31, 2010 and 2009, there was no impairment of goodwill.

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 range of amortizable lives, are as follows:

| | | March 31, 2010 | | | March 31, 2009 | | |
|---|---|---|---|---|---|---|---|
| | Weighted-Average Life in years | Gross Amount | Accumulated Amortization | Net | Gross Amount | Accumulated Amortization | Net |
| Amortizable intangible assets: | | | | | | | |
| Customer relationships | 9 | $ 28,497 | $ (12,250) | $ 16,247 | $ 27,627 | $ (8,794) | $ 18,833 |
| Patents | 16 | 4,038 | (1,259) | 2,779 | 3,984 | (895) | 3,089 |
| Tradenames | 3 | 2,055 | (2,019) | 36 | 2,000 | (1,478) | 522 |
| Backlog | 1 | 2,792 | (2,792) | - | 2,732 | (2,556) | 176 |
| Covenants-not-to-compete | 3 | 1,011 | (977) | 34 | 1,008 | (932) | 76 |
| Proprietary technology | 13 | 6,008 | (1,491) | 4,517 | 5,763 | (981) | 4,782 |
| | | $ 44,401 | $ (20,788) | $ 23,613 | $ 43,114 | $ (15,636) | $ 27,478 |

Amortization expense for the year ended March 31, 2010, 2009 and 2008 was $6,001, $5,609, and $3,610, respectively. In addition to the intangible assets acquired with FGP and Atexis, the Company also purchased $400 in proprietary technology intangible assets in 2009. Estimated annual amortization expense is as follows:

| Year | Amortization Expense |
|---|---|
| 2011 | $ 4,342 |
| 2012 | 3,750 |
| 2013 | 3,182 |
| 2014 | 2,256 |
| 2015 | 2,217 |
| Thereafter | 7,866 |
| | $ 23,613 |

Pro forma Financial Data (Unaudited): The following represents the Company's pro forma consolidated results of continuing operations for the years ended March 31, 2009 and 2008, based on final purchase accounting information assuming the Visyx and Intersema acquisitions occurred as of April 1, 2007, and final purchase accounting information assuming Atexis and FGP acquisitions occurred as of April 1, 2007, 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, 2007.

| | March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Net sales | $ 223,961 | $ 263,270 |

| | | | | |
|---|---|---|---|---|
| Net income attributable to MEAS | $ | 5,488 | $ | 15,677 |
| | | | | |
| Net income attributable to MEAS per common share: | | | | |
| Basic | $ | 0.38 | $ | 1.09 |
| Diluted | $ | 0.38 | $ | 1.08 |

6. DISCONTINUED OPERATIONS AND GAIN ON SALE OF ASSETS:

CONSUMER PRODUCTS SEGMENT: In accordance with accounting policies for Disposal of Long-lived Assets, the related financial information for the Consumer segment is reported as discontinued operations. The Consumer segment designed and manufactured sensor-based consumer products, such as bathroom and kitchen scales, tire pressure gauges and distance estimators, primarily as an original equipment manufacturer (OEM), to retailers and distributors mainly in the United States and Europe.

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 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 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 during 2010. The uncollected portion of the note receivable was written off as an expense from discontinued operations during fiscal 2010.

For the years ended March 31, 2009 and 2008, imputed interest income related to the promissory note receivable totaled $20 and $112, respectively, which is included in interest expense, net from continuing operations.

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.

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.

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), accounts payable, and accrued expenses and other liabilities (non-derivatives), the carrying amounts approximate fair value because of the short maturity of these instruments. Non-current other assets consist of various miscellaneous items such as deposits and deferred costs and non-current other liabilities consist mostly of deferred rent and pension liability.

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 and the short-term remaining.

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.

Commodity Risk: The Company uses a wide range of commodities in our products, including steel, non-ferrous metals and petroleum based products, as well as other commodities required for the manufacture of our sensor products. Changes in the pricing of commodities directly affect our results of operations and financial condition. We attempt to pass increases in commodity costs to our customers, and we do not currently hedge such commodity exposures.

Credit Risk: Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and temporary investments, foreign currency forward contracts when in an asset position and trade accounts receivable. The Company is exposed to credit losses in the event of nonperformance by counter parties to its financial instruments. The Company places cash and temporary investments with various high-quality financial institutions throughout the world. Although the Company does not obtain collateral or other security to secure these obligations, it does periodically monitor the third-party depository institutions that hold our cash and cash equivalents. Our emphasis is primarily on safety and liquidity of principal and secondarily on maximizing yield on those funds. In addition, concentrations of credit risk arising from trade accounts receivable are limited due to the diversity of the Company's customers. The Company performs ongoing credit evaluations of its customers' financial conditions and the Company does not generally obtain collateral, credit insurance or other security. Notwithstanding these efforts, the current distress in the global economy may increase the difficulty in collecting accounts receivable.

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 RMB, 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 16, 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 consolidated financial statements.

The value of the RMB relative to the U.S. dollar was stable during 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 RMB 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, Irish and German subsidiaries have more sales in Euros than expenses in Euros and the Company's Swiss subsidiary has more expenses in Swiss francs than sales in Swiss francs, and as such, if the U.S. dollar weakens relative to the Euro and Swiss franc, our operating profits increase in France, Ireland 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 $1,605 with exercise dates through December 2010 at an average exchange rate of $1.32 (Euro to U.S. dollar conversion rate). With these Euro/U.S. dollar contracts, for every 1% depreciation of the Euro, the Company would be exposed to approximately $16 in additional fx losses. 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:

| | March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | Balance sheet location |
| Financial position: | | | |
| Foreign currency exchange contracts - Euro/US dollar | $ (40) | $ 105 | Other assets |
| | $ - | $ (143) | Other liabilities |

| | | | | |
|---|---|---|---|---|
| Foreign currency exchange contracts - RMB | | | | |
| Foreign currency exchange contracts - Japanese yen | $ | - | $ 115 | Other assets |

The effect of derivative instruments not designated as hedging instruments on the statements of operations and cash flows for the years ended March 31, 2010, 2009 and 2008 is as follows:

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | 2008 | Location of gain or loss |
| Results of operations: | | | | |
| Foreign currency exchange contracts - Euro | $ (27) | $ (885) | $ (578) | Foreign currency exchange (gain) loss |
| Foreign currency exchange contracts - RMB | (18) | 170 | - | Foreign currency exchange (gain) loss |
| Foreign currency exchange contracts - Japanese yen | (229) | (115) | - | Foreign currency exchange (gain) loss |
| Total | $ (274) | $ (830) | $ (578) | |

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | 2008 | Location of gain or loss |
| Cash flows from operating activities: Source (Use) | | | | |
| Foreign currency exchange contracts - Euro | $ 304 | $ 781 | $ 578 | Prepaid expenses, other current assets and other receivables |
| Foreign currency exchange contracts - RMB | (125) | (27) | - | Accrued expenses, accrued compensation, other current and other liabilities |
| Foreign currency exchange contracts - Japense yen | 106 | - | - | Prepaid expenses, other current assets and other receivables |
| Total | $ 285 | $ 754 | $ 578 | |

8. LONG-TERM DEBT:

LONG-TERM DEBT AND REVOLVER

To support the financing of the acquisitions of YSI Temperature and BetaTHERM (See Note 5), effective April 1, 2006, the Company entered into an Amended and Restated Credit Agreement with 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 5), 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 accrued 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 could be adjusted quarterly based on a change in specified financial ratios. Borrowings under the line were 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 availability of the revolving credit facility was not based on any borrowing base requirements, but borrowings were limited by certain financial covenants. The term portion of the Amended Credit Facility totaled $8,000 and $14,000 at March 31,

2010 and 2009, respectively. The term loan portion of our credit facility was not changed with the Amended Credit Facility. The term loan was 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 had 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 to the credit agreement with our lenders whereby the Company proactively negotiated a reduction of our debt covenant requirements, as a result of the decline in our sales and profitability resulting from the impact of the global recession. The amendment provided the Company with additional flexibility under its minimum Covenant EBITDA, 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 was reduced from $121,000 to $90,000. The Amendment increased the interest rate by between 1.50% and 2.25%, with increases in the Index Margin and LIBOR Margin, which vary based on the Company's debt to Covenant EBITDA leverage ratio. Pursuant to the Amendment, the Company was prohibited from consummating any business acquisitions without lender approval during the covenant relief period, which ended March 31, 2010. The Company was in compliance with applicable financial covenants at March 31, 2010.

As of March 31, 2010, the Company utilized the LIBOR based rate for the term loan and the LIBOR based rate for $52,000 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 4.3% at March 31, 2010. As of March 31, 2010, the outstanding borrowings on the revolving credit facility, which is classified as long-term debt, were $53,547, and the Company had an additional $36,453 available under the revolving credit facility. The Company's borrowing capacity was limited by financial covenant ratios, including earnings ratios, and as such, our borrowing capacity was subject to change. At March 31, 2010, the Company could have borrowed an additional $27,500. Commitment fees on the unused balance were equal to 0.5% per annum of the average amount of unused balances. Financing fees associated with amendments were deferred as other assets and are amortized over the term of the debt.

The Company's debt covenant requirements for March 31, 2010 were as follows:

| | |
|---|---|
| Minimum Adjusted Earnings Before Income Taxes, Stock Options, Depreciation, and Amortization ("Adjusted EBITDA") | $ 24,750 |
| Minimum Adjusted Fixed Charge Coverage Ratio for the last twelve months | 1.20 |
| Maximum Adjusted Capital Expenditures for the last twelve months | $ 8,758 |
| Maximum Adjusted Total Leverage Ratio | 3.25 |

Adjusted Covenant EBITDA was the Company's earnings before income taxes, stock options, depreciation and amortization for last twelve months, in addition to the last twelve months of Adjusted Covenant EBITDA for acquisitions. Adjusted fixed charge coverage ratio was 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 was total debt less cash maintained in U.S. bank accounts which were subject to blocked account agreements with lenders divided by the last twelve months of Adjusted Covenant EBITDA. All of the aforementioned financial covenants were subject to various adjustments, many of which were detailed in the Amended Credit Agreement and subsequent amendments to the credit agreement previously filed with the Securities and Exchange Commission, as well as other adjustments approved by the lender. These adjustments included such items as excluding capital expenditures associated with the new China facility from capital expenditures, and adjustments to Adjusted Covenant EBITDA for certain items such litigation settlement costs, severance costs and other items considered non-recurring in nature.

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 March 31, 2010, there were $5,000 outstanding borrowings against the China Credit Facility classified as short-term debt and MEAS China could borrow approximately $5,000.

Promissory Notes: In connection with the acquisition of Intersema, the Company issued 10,000 Swiss franc unsecured promissory notes ("Intersema Notes"). At March 31, 2010, the Intersema Notes totaled $4,698, of which $2,349 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 March 31, 2010 and 2009:

| | March 31, 2010 | 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 | $ 8,000 | $ 14,000 |
| Governmental loans from French agencies at no interest and payable based on R&D expenditures | 476 | 517 |
| Term credit facility with six French banks at an interest rate of 4% payable through 2010 | 307 | 608 |
| | 8,783 | 15,125 |
| Less current portion of long-term debt | 2,295 | 2,356 |
| | $ 6,488 | $ 12,769 |
| 4.5% promissory note payable in four equal annual installments through January 15, 2012 | $ 4,698 | $ 6,528 |
| Less current portion of promissory notes payable | 2,349 | 2,176 |
| | $ 2,349 | $ 4,352 |

The annual principal payments of long-term debt, promissory notes and revolver as of March 31, 2010 are as follows:

| Year ended March 31, | Term | Other | Subtotal | Notes | Revolver / Short-term debt | Total |
|---|---|---|---|---|---|---|
| 2011 | $ 2,000 | $ 295 | $ 2,295 | $ 2,349 | $ 5,000 | $ 9,644 |
| 2012 | 6,000 | 165 | 6,165 | 2,349 | 53,547 | 62,061 |
| 2013 | - | 142 | 142 | - | - | 142 |
| 2014 | - | 181 | 181 | - | - | 181 |
| Total | $ 8,000 | $ 783 | $ 8,783 | $ 4,698 | $ 58,547 | $ 72,028 |

Refinancing: The Company entered into a new Credit Agreement (the "Senior Secured Credit Facility") dated June 1, 2010 among JPMorgan Chase Bank, N.A., as administrative agent and collateral agent (in such capacity, the "Senior Secured Facility Agents"), Bank America, N.A., as syndication agent, and certain other parties thereto (the "Credit Agreement") to refinance the Amended and Restated Credit Agreement effective as of April 1, 2006 among the Company, General Electric Capital Corporation, as agent and a lender, and certain other parties thereto and to provide for the working capital needs of the Company including to effect permitted acquisitions. The Senior Secured Facility consists of a $110,000 revolving credit facility (the "Revolving Credit Facility") with a $50,000 accordion feature enabling expansion of the Revolving Credit Facility to $160,000. The Revolving Credit Facility has a variable interest rate based on either the London Inter-bank Offered Rate ("LIBOR") or the ABR Rate (prime based rate) with applicable margins ranging from 2.00% to 3.25% for LIBOR based loans or 1.00% to 2.25% for ABR Rate loans. The applicable margins may be adjusted quarterly based on a change in the leverage ratio of the Company. The Senior Secured Credit Facility also includes the ability to borrow in currencies other than U.S. Dollars ("USD"), such as the Euro and Swiss Franc, up to USD $66,000. Commitment fees on the unused balance of the Revolving Credit Facility range from 0.375% to 0.500% per annum of the average amount of unused balances. The

Revolving Credit Facility will expire on June 1, 2014 and all balances outstanding under the Revolving Credit Facility will be due on such date. The Company has provided a security interest in substantially all of the Company's U.S. based assets as collateral for the Senior Secured Facility and private placement of credit facilities entered into by the Company from time to time not to exceed $50,000, including the Prudential Shelf Facility (as defined below). The Senior Secured Credit Facility includes an inter-creditor arrangement with Prudential (as defined below) and is on a pari pasu (equal force) basis with the Prudential Shelf Facility.

The Senior Secured Facility includes specific financial covenants for maximum leverage ratio and minimum fixed charge coverage ratio, as well as customary representations, warranties, covenants and events of default for a transaction of this type. Consolidated EBITDA for debt covenant purposes is the Company's consolidated net income determined in accordance with GAAP minus the sum of income tax credits, interest income, gain from extraordinary items for such period, any non-cash gains, and gains due to fluctuations in currency exchange rates, plus the sum of any provision for income taxes, interest expense, loss from extraordinary items, any aggregate net loss during such period arising from the disposition of capital assets, the amount of non-cash charges for such period, amortized debt discount for such period, losses due to fluctuations in currency exchange rates and the amount of any deduction to consolidated net income as the result of any grant to any members of the management of the Company of any equity interests. The Company's leverage ratio consists of total debt less unrestricted cash maintained in U.S. bank accounts which are subject to control agreements in favor of JPMorgan Chase Bank, N.A., as Collateral Agent, to Consolidated EBITDA. Adjusted fixed charge coverage ratio is Covenant EBITDA less capital expenditures divided by fixed charges. Fixed charges are the last twelve months of scheduled principal payments, taxes paid in cash and consolidated interest expense. All of the aforementioned financial covenants are subject to various adjustments, many of which are detailed in the Credit Agreement.

On June 1, 2010, the Company entered into a Master Shelf Agreement (the "Prudential Shelf Facility") with Prudential Investment Management, Inc. ("Prudential") whereby Prudential agreed to purchase up to $50,000 of senior secured notes (the "Senior Secured Notes") issued by the Company. Prudential purchased two Senior Secured Notes each for $10,000 and the remaining $30,000 of such Senior Secured Notes may be purchased at the discretion of Prudential or one or more of its affiliates upon the request of the Company. The Prudential Shelf Facility has a fixed interest rate of 5.70% and 6.15% for each of the two $10,000 Senior Secured Notes issued by the Company and the Senior Secured Notes issued there under are due on June 1, 2015 and 2017, respectively. The Prudential Shelf Facility includes specific financial covenants for maximum total leverage ratio and minimum fixed charge coverage ratio consistent with the Senior Secured Credit Facility, as well as customary representations, warranties, covenants and events of default. The Prudential Shelf Facility includes an inter-creditor arrangement with the Senior Secured Facility Agents and is on a pari pasu (equal force) basis with the Senior Secured Facility. The Company has provided a security interest in substantially all of the Company's U.S. based assets as collateral for the Prudential Shelf Facility and the Revolving Credit Facility.

9. SHAREHOLDERS’ EQUITY:

Capital Stock:

The Company is authorized to issue 26,200,000 shares of capital stock, of which 221,756 shares have been designated as serial preferred stock and 25,000,000 shares have been designated as common stock. Each share of common stock has one vote. The Board of Directors has the authority without further action by shareholders to issue up to 978,244 shares of blank check preferred stock, none of which are issued or outstanding.

The repurchase of the Company’s common stock is restricted by our credit agreement with GE not to exceed $1,000 each fiscal year and not to exceed $4,000 cumulatively. We have not declared cash dividends on our common equity. Additionally, the payment of dividends is prohibited under our credit agreement with GE. We intend to retain earnings to support our growth strategy and we do not anticipate paying cash dividends in the foreseeable future.

Accumulated Other Comprehensive Income:

Accumulated other comprehensive income primarily consists of foreign currency translation adjustments. The largest portion of the cumulative translation adjustment relates to the Company’s European and Asian operations and reflects the changes in the Euro, RMB, Hong Kong dollar and Swiss franc exchange rates relative to the US dollar.

Noncontrolling Interest

On April 1, 2009, the Company adopted new accounting standards for Noncontrolling Interests in Consolidated Financial Statements, which required certain changes to the presentation of the financial statements. The new accounting standards require noncontrolling interest (previously referred to as minority interest) to be classified in the consolidated statements of income as part of the consolidated net earnings and to include the accumulated amount of noncontrolling interest in the consolidated balance sheets as part of shareholders' equity. Noncontrolling interests recorded in the consolidated financial statements represent the ownership interest in NT not owned by the Company.

10. BENEFIT PLANS:

Defined Contribution Plans:

The Company has a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code. Substantially all of its U.S. employees are eligible to participate after completing three months of service. Participants may elect to contribute a portion of their compensation to the plan. Under the plan, the Company has the discretion to match a portion of participants' contributions. The Company recorded no expense under the plan for the fiscal years ended March 31, 2009, and an expense of $500, and $572 under the plan for the fiscal years ended March 31, 2010 and 2008, respectively.

Defined Benefit Plans:

The Company's European operations maintain certain supplemental defined benefit plans for substantially all of their employees. The gross amount of the future benefit to be paid for pension and retirement will be fully covered through a specific contract subscribed through an insurance company. Annual payments for this obligation total approximately $47.

With the acquisition of Intersema, the Company acquired a defined benefit pension plan. At March 31, 2010 and 2009, the fair value of the plan assets was $3,570 and $3,422, respectively, and the benefit obligation was $3,759 and $3,342, respectively. Overall, remaining amounts and related disclosures for the pension plan are immaterial to the consolidated financial statements.

Employee Stock Purchase Plan:

In September 2006, the Company established the Measurement Specialties, Inc. 2006 Employee Stock Purchase Plan ("ESPP") under Section 423 of the Internal Revenue Code to provide employees of the Company and certain of its subsidiaries with an opportunity to purchase shares of the Company's common stock through accumulated payroll deductions. The purchase price for shares of the Company's common stock under the ESPP is 95% of the lower of the closing value of the Company's common stock on the first or last trading day of an offering period. In accordance with the applicable standards for employers' accounting for employee stock ownership plans, shares held by the ESPP are considered outstanding upon the commitment date for issuance for purposes of calculating diluted net income per common share. The Company issued 4,876 shares as part of the offering period ending March 31, 2010, and these shares were considered outstanding as of March 31, 2010 in the calculation of diluted net income per common share. During fiscal 2009 and 2008, the Company issued 7,470 and 2,675 shares, respectively, as part of the offering period ending March 31, 2009 and 2008, respectively, and these shares were considered outstanding as of March 31, 2009 and 2008 in the calculation of diluted net income per common share.

11. RELATED PARTY TRANSACTIONS:

With the purchase of YSI Temperature, the Company acquired a 50 percent ownership interest in Nikkiso-THERM ("NT"), a joint venture in Japan. This joint venture is included in the consolidated financial statements of the Company. At March 31, 2010 and 2009, NT had amounts due from Nikkiso of $918 and $1,824, respectively.

12. INCOME TAXES:

Income from continuing operations before income taxes for the year ended March 31, 2010, 2009 and 2008 consists of the following:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Domestic | $ (3,378) | $ (2,367) | $ 5,146 |
| Foreign | 10,596 | 12,270 | 17,661 |
| Income from continuing operations before income taxes | $ 7,218 | $ 9,903 | $ 22,807 |

Income tax expense from continuing operations consists of the following:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Current | | | |
| Federal | $ 48 | $ - | $ 44 |
| Foreign | 2,629 | 3,435 | 2,651 |
| State | - | 33 | (1) |
| Total | $ 2,677 | $ 3,468 | $ 2,694 |
| | | | |
| Deferred | | | |
| Federal | (128) | (723) | 2,459 |
| Foreign | (1,728) | 1,575 | 622 |
| State | (88) | (84) | 226 |
| Total | (1,944) | 768 | 3,307 |
| | $ 733 | $ 4,236 | $ 6,001 |

Differences between the federal statutory income tax rate and the effective tax rates using income from continuing operations, before income taxes are as follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Statutory tax rate | 35.0% | 35.0% | 35.0% |
| Return to provision adjustment | -0.7% | -0.9% | -0.8% |
| Effect of foreign taxes | -28.8% | -8.7% | -13.9% |
| State taxes | -1.2% | -0.4% | 0.8% |
| Valuation allowance | 0.3% | 24.5% | 0.7% |
| Stock options | 6.1% | 3.6% | 2.5% |
| US tax on foreign income | 13.8% | 2.1% | 2.3% |
| Tax credits | -5.8% | -9.2% | -2.4% |
| Rate changes | -7.4% | 0.0% | 4.1% |
| Tax exempt income | -0.7% | -1.7% | 0.0% |
| Other | -0.4% | -1.5% | -2.0% |
| | 10.2% | 42.8% | 26.3% |

Differences between the Federal statutory rate and the effective tax rate have historically related mainly to reduced rates applied to pre-tax income generated by the Company's foreign subsidiaries. Most of the return to provision adjustment in 2010 relates to the research and development ("R&D") deduction in China. During fiscal 2009, there was a significant difference due to the valuation allowance recorded for certain deferred tax assets principally at our German subsidiary. The larger permanent items in 2010, 2009 and 2008 include incentive stock options, tax credits, foreign dividend income, as well as non-deductible meals and entertainment expenses. In 2008, the reversal of a foreign income tax payable resulted in a reduction of income tax expense of $597. This income tax payable related to a foreign tax accrual from at least 2001, which had been previously considered a liability; however, based on further documentation, it was determined that the Company was not liable for the amounts which had previously been accrued.

In fiscal 2010, there was a tax law change in France which included changes to a business tax previously not classified as an income tax but is now reported as an income tax. This change increased income tax in France by $63. In fiscal 2008, there were tax law changes in Germany and China which resulted in approximately $900 of additional income tax expense. Approximately $989 in additional non-cash income tax expense relates to the revaluation of the net deferred tax assets in Germany resulting from the decrease in tax rates. The combined tax rate in Germany decreased

from 39% to 32%, as a result of the German Business Tax Reform 2008, which became effective on August 17, 2007.

Prior to fiscal 2008, the Company had received on an annual basis over the past 9 years certain tax reductions from the tax authorities in China, as the Company qualified as a high-technology and export business enterprise. This special tax status provided the Company, among other things, reductions in statutory national and local tax rates in China from approximately 15% to approximately 10%. These reduced tax rates resulted in tax reductions of approximately $416, or $0.03 per diluted share for the fiscal year ended March 31, 2008. Effective January 1, 2008, the statutory tax rate for 2008 increased to 18% under the new China Enterprise Income Tax Law which increased to 20% January 1, 2009. The new law established a common 25% rate which applies to both domestic and foreign enterprises and is being phased in over a five-year period. Accordingly, in fiscal 2008, the Company recorded China taxes at the higher rate of 20% on current tax expense and 20% to 25% on net deferred tax assets. In fiscal 2008, approximately $191 non-cash income tax credit for to the revaluation of the net deferred tax assets in China resulting from the increase in income tax rates, which was partially offset by an increase of $102 in income tax expense for withholding taxes on undistributed earnings.

The new China tax law includes provisions for high technology enterprises to qualify for a reduced rate of 15%. To qualify for this reduced rate the Company has to meet various criteria in regard to its operation related to its sales, research and development activity, and intellectual property rights. During the fourth quarter of fiscal 2010, the Company's subsidiary in China received approval from the Chinese tax authorities for High Tech New Enterprise status ("HTNE"). The new HTNE status for the Company provides a reduced rate of 15% through calendar 2011, at which time there is a requalification process. To qualify for this reduced rate the Company must continue to meet various criteria in regard to its operations related to sales, research and development activity, and intellectual property rights. These reduced tax rates resulted in tax reductions of approximately $466, or approximately $0.03 per diluted share for the fiscal year ended March 31, 2010. Additionally, the Company recorded in fiscal 2010 approximately $136 non-cash income tax expense related to the revaluation of the net deferred tax assets in China resulting from decrease in income tax rates. Also included in fiscal 2010, is a tax reduction resulting from the Company qualifying for additional expense deductions in China for qualifying R&D expenses. The income tax benefit from these deductions was approximately $266, which is reflected as a favorable discrete tax adjustment during the quarter ended September 30, 2009.

During 2010, the Company elected to distribute $7,500 of undistributed earnings from its Irish subsidiary, MEAS Ireland, and recorded a deferred tax liability and corresponding discrete income tax expense for $1,100. The Company generally considers undistributed earnings of most of its foreign subsidiaries to be indefinitely reinvested outside of the U.S. and, accordingly, no U.S. deferred taxes are recorded with respect to such earnings. Should the earnings be remitted as dividends, the Company would be subject to additional U.S. taxes net of allowable foreign tax credits. It is not practicable to estimate the amount of any additional taxes which may be payable on the undistributed earnings.

The Hong Kong statutory corporate tax rate applicable to the Company's Hong Kong Subsidiary's earnings is 16.5%. The statutory tax rates for the Company's subsidiaries in France and Germany are approximately 33.0% and 32.0%, respectively. The statutory tax rates in Ireland are 12.5% for trade operating income and 25% for passive income such as interest. The statutory rate for Switzerland is approximately 12.5%.

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 12.5% from 22%. These reduced tax rates resulted in tax reductions of approximately $659, or approximately $0.05 per share for the fiscal year ended March 31, 2010. 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 $651 recorded during the quarter ended September 30, 2009. The Company's Swiss subsidiary had a reduced tax rate of 8.5% through December 31 2008, as a result of being granted a tax holiday by the Swiss tax authority. These reduced tax rates have resulted in tax reductions of approximately $95 or $0.01 per share for fiscal year ended March 31, 2009 and they were in a loss position for fiscal year ended March 31, 2008.

The significant components of the net deferred tax assets at March 31, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Current deferred tax assets: | | |
| Accounts receivable allowance for doubtful accounts | $ 60 | $ 176 |
| Inventory | 845 | 974 |
| Accrued expenses | 789 | 634 |
| Other | 58 | 376 |
| Total current deferred tax assets | 1,752 | 2,160 |
| | | |
| Current deferred tax liabilities: | | |
| Other | (214) | (93) |
| Total current deferred tax liabilities | (214) | (93) |
| | | |
| Net current deferred tax assets | $ 1,538 | $ 2,067 |
| | | |
| Long-term deferred tax assets: | | |
| AMT and other credit carry-forwards | $ 280 | $ 2,131 |
| Warranty and other accrued expenses | 243 | 350 |
| Net operating loss carryforwards | 12,223 | 11,024 |
| Stock options | 2,018 | 1,391 |
| Other | 392 | 850 |
| Total long term asset | 15,156 | 15,746 |
| Valuation allowance | (3,074) | (3,048) |
| Net long-term deferred tax assets | 12,082 | 12,698 |
| | | |
| Long-term deferred tax liability | | |
| Basis difference in property, plant and equipment | (849) | (1,111) |
| Basis difference in acquired intangible assets | (5,917) | (6,978) |
| Other | (1,678) | (1,624) |
| Total long-term deferred tax liabilities | (8,444) | (9,713) |
| Net long term deferred tax asset | 3,638 | 2,985 |
| | | |
| Net deferred tax assets | $ 5,176 | $ 5,052 |

The following are the net deferred tax assets and deferred tax liabilities by region at March 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Current deferred tax assets: | | |
| Domestic | $ 1,278 | $ 974 |
| Europe | 106 | 348 |
| Asia | 368 | 838 |
| Total | $ 1,752 | $ 2,160 |
| | | |
| Non-current deferred tax assets: | | |
| Domestic | $ 9,047 | $ 8,676 |

| | | |
|---|---|---|
| Europe | 2,870 | 3,590 |
| Asia | 165 | 432 |
| Total | 12,082 | 12,698 |
| Total deferred tax assets | $ 13,834 | $ 14,858 |
| | | |
| Current deferred tax liabilities: | | |
| Domestic | $ - | $ - |
| Europe | (214) | (93) |
| Total current deferred tax liabilities | $ (214) | $ (93) |
| | | |
| Non-current deferred tax liabilities: | | |
| Domestic | $ (2,606) | $ (2,427) |
| Europe | (5,522) | (6,936) |
| Asia | (316) | (350) |
| Total non-current deferred tax liabilities | (8,444) | (9,713) |
| Total deferred tax liabilities | (8,658) | (9,806) |
| Net deferred tax assets | $ 5,176 | $ 5,052 |

The Company has a valuation allowance of $3,074 for certain deferred tax assets associated with net operating loss carry-forwards ("NOLs"). The 2010 valuation allowances recorded for Hong Kong was $20. At March 31, 2010 and 2009, a cumulative valuation allowance of $128 and $108, respectively, relating to the Hong Kong subsidiary was recognized because the Company does not project utilizing the existing deferred tax asset. At March 31, 2010, our German subsidiary had cumulative losses over the past three years, primarily due to the decrease in profitability during the second half of fiscal 2009 as a result of the global recession. The negative evidence of three years of cumulative losses was considered to outweigh the positive evidence that the net operating losses were not subject to expiration, because the long-term prospects of future profitability were not considered objectively verifiable. We expect our German subsidiary to return to profitability in a future period. We will continue to assess on all available positive and negative evidence to determine if a valuation allowance is required. The 2009 non-cash charges to income tax expense for the German valuation allowance reduced our net income by $2,881 or approximately $0.20 per diluted share. Accounting guidance for such valuation allowances is strictly based on the evaluation of positive and negative evidence which can be objectively verified as to whether it is more likely than not the NOLs will be utilized, and if positive evidence does not outweigh negative evidence, a valuation allowance is required. The Company does not have a valuation allowance for other remaining deferred tax assets, including the U.S. net operating losses, in spite of the three year cumulative losses in the U.S. due largely to the availability of a tax planning strategy. The analysis of positive evidence which could be objectively verified outweighs any negative evidence supporting the conclusion that an overall valuation allowance is not required for the other remaining deferred tax assets. Current and expected taxable income of the Company supports that an additional valuation allowance is not needed and it is more likely than not that the results of future operations will generate sufficient taxable income to realize the other remaining deferred tax assets.

The Company has U.S. federal and state net operating loss carry-forwards of approximately $16,559 and $17,556 at March 31, 2010 and 2009, respectively, which begin to expire in fiscal year 2022. The Company has net operating loss carry-forwards in Germany of approximately $12,350, which are not subject to expiration, but has a full valuation allowance recorded. During the year ended March 31, 2010 and 2009, the Company realized approximately $1,058 and $0, respectively, in benefits from the net operating loss carryforwards. The Company has a federal AMT tax credit carry-forward of approximately $280, which does not expire, and French R&D tax credits of $1,511 at March 31, 2010 not subject to expiration. The French tax credits are recorded as an income tax receivable and a reduction to R&D operating expenses.

The Company adopted the accounting provisions for uncertainty in income taxes effective April 1, 2007. The Company has historically applied the more-likely-than-not recognition threshold, and as a result, the implementation of accounting for uncertainty in income taxes did not have a material impact on the Company's financial statements. The following is a reconciliation of the total amounts of unrecognized tax benefits for the year ended March 31, 2010:

| | | |
|---|---|---|
| Unrecognized tax benefits, April 1, 2009 | $ | 227 |
| Increases for tax positions related to prior years | | 7 |
| Unrecognized tax benefits, March 31, 2010 | $ | 234 |

The unrecognized tax benefits of $234 at March 31, 2010, if recognized, would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits. At March 31, 2010, the Company has a liability of $20 for penalties and $31 for interest. During 2010, the Company recognized no amounts for penalties and $7 for interest. The interest related to unrecognized tax benefits is recorded in "Interest expense" and penalties related to tax matters is recorded in "Operating expenses."

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Company's tax years for fiscal 2007 and 2008 are currently subject to examination by U.S. tax authorities. The additional tax years of 2004

through 2009 are subject to examination by China tax authorities.

Based on the expiration of the statute of limitations for specific jurisdictions, the related unrecognized tax benefit for positions previously taken may change in the next twelve months by approximately $126 recorded through income tax expense.

13. EARNINGS 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. The following is a reconciliation of the numerators and denominators of basic and diluted earnings per share computations for the years ended March 31, 2010, 2009 and 2008, respectively:

| | Net income attributable to MEAS (Numerator) | Weighted Average Shares in thousands (Denominator) | Per-Share Amount |
|---|---|---|---|
| March 31, 2010: | | | |
| Basic per share information | $ 5,916 | 14,498 | $ 0.41 |
| Effect of dilutive securities | - | 188 | (0.01) |
| Diluted per-share information | $ 5,916 | 14,686 | $ 0.40 |
| | | | |
| March 31, 2009: | | | |
| Basic per share information | $ 5,279 | 14,465 | $ 0.36 |
| Effect of dilutive securities | - | 110 | - |
| Diluted per-share information | $ 5,279 | 14,575 | $ 0.36 |
| | | | |
| March 31, 2008: | | | |
| Basic per share information | $ 16,442 | 14,360 | $ 1.14 |
| Effect of dilutive securities | - | 150 | (0.01) |
| Diluted per-share information | $ 16,442 | 14,510 | 1.13 |

For the years ended March 31, 2010, 2009 and 2008, respectively, an aggregate of 2,042,296, 1,943,142 and 1,671,276 options, respectively, were excluded from the earnings per share calculation because their effect would be anti-dilutive.

14. STOCK OPTION PLANS:

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.

On September 16, 2008, the Company's shareholders approved a new stock-based compensation plan, 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. A total of 1,238,414 and 525,988 options to purchase shares were outstanding at March 31, 2010 and 2009, respectively, under the 2008 Plan. With the adoption of the 2008 Plan, no further options may be granted under the Company's other option plans.

Options to purchase up to 1,000,000 shares of common stock were eligible to be granted under the Company's 2006 Stock Option Plan ('2006 Plan'). A total of 945,338, 970,542, and 952,745 options to purchase shares were outstanding at March 31, 2010, 2009 and 2008, respectively, under the 2006 plan.

On July 28, 2003, the Board of Directors adopted the Measurement Specialties, Inc. 2003 Stock Option Plan ("2003 Plan"), which was approved by shareholders at the 2003 Annual Meeting on September 23, 2003. Options to purchase up to 1,000,000 common shares were eligible to be granted under the 2003 Plan, and 694,910, 744,420, and 780,765 stock options were issued and outstanding at March 31, 2010, 2009, and 2008, respectively, under the 2003 Plan.

Options to purchase up to 1,500,000 shares of common stock were capable of being granted under the Company's 1998 Stock Option Plan, ('1998 Plan') until its expiration on October 19, 2008. A total of 187,312, 256,112, and 287,729 options to purchase shares were outstanding at March 31, 2010, 2009 and 2008, respectively, under the 1998 Plan.

Stock-option awards are priced based on the closing price of the Company's common stock on the award date, 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, and expire no later than ten years from the date of grant. Options may, but need not, qualify as 'incentive stock options' under section 422 of the Internal Revenue Code. Tax benefits are recognized upon nonqualified exercises and disqualifying dispositions of shares acquired by qualified exercises. There were no changes in the exercise prices of outstanding options, through cancellation and re-issuance or otherwise, for 2010, 2009, or 2008. The number of shares remaining for future issuance under equity compensation plans totaled 133,986, 874,012, and 145,195, as of March 31, 2010, 2009, and 2008, respectively.

A summary of stock options outstanding as of March 31, 2010 and changes during the twelve months then ended is presented below:

| | | Number of outstanding shares exercisable | | Weighted-Average Exercise Price | |
|---|---|---|---|---|---|
| | | Outstanding | Exercisable | Outstanding | Exercisable |
| | March 31, 2009 | 2,497,062 | 1,201,329 | 19.07 | 22.31 |
| Granted at market | | 751,219 | | | |
| Forfeited | | (37,447) | | | |
| Expired | | (105,430) | | | |
| Exercised | | (40,220) | | | |
| | March 31, 2010 | 3,065,184 | 1,606,224 | 16.42 | 21.18 |

The aggregate intrinsic value of options outstanding at March 31, 2010, was $10,865 with a weighted-average remaining contractual life of 4.73 years and a weighted average exercise price of $16.42. Of these options outstanding, 1,606,224 were exercisable and 1,301,192 were expected to vest with aggregate intrinsic values of $2,178 and $7,626, respectively. The weighted-average contractual life of options exercisable and options expected to vest was 3.3 and 1.8 years, respectively. The weighted average exercise price of options exercisable and options expected to vest was $21.18 and $11.36, respectively. The following table provides information related to options exercised during the years ended March 31, 2010, 2009, and 2008:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Total intrinsic value | $ 150 | $ 323 | $ 2,276 |
| Cash received upon exercise of options | 172 | 276 | 1,664 |
| Related tax benefit realized | - | 10 | 260 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option-pricing model (graded vesting schedule with traunche by traunche measurement and recognition of compensation cost) with the following weighted-average assumptions:

| | Years ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Dividend yield | - | - | - |
| Expected volatility | 63.4% | 47.6% | 37.6% |
| Risk free interest rate | 2.1% | 1.6% | 3.6% |

| | | | |
|---|---|---|---|
| Expected term after vesting (in years) | 2.0 | 2.0 | 2.0 |
| Weighted-average grant-date fair value | $ 3.56 | $ 1.96 | $ 8.26 |

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.

In order to provide an appropriate expected volatility, one which marketplace participants would likely use in determining an exchange price for an option, the Company revised, during the quarter ended September 30, 2006, the method of calculating expected volatility by disregarding a period of the Company's historical volatility data not considered representative of expected future volatility and replacing the disregarded period of time with peer group data. The Company considers the period of time disregarded to be within the "rare" situations stated in Security Exchange Commission Staff Accounting Bulletin No. 107 ("SAB 107"). The Company experienced, during the period of time leading up to and after the restructuring in May 2002, a rare series of events, including a going concern situation, financial statement restatement, a class action shareholder lawsuit, an SEC investigation, a $4,400 asset write-down, significant net losses, and a halt in the trading of the Company's common stock, none of which are expected to recur in the future.

At March 31, 2010, there was $2,889 of unrecognized compensation cost related to share-based payments, which is expected to be recognized over a weighted-average period of 1.3 years. The unrecognized compensation cost above is not adjusted for estimated forfeitures. Adjusted for estimated forfeitures, at March 31, 2010, there was $2,171 of unrecognized compensation cost related to share-based payments.

15. COMMITMENTS AND CONTINGENCIES:

Leases:

The Company leases certain property and equipment under non-cancelable operating leases expiring on various dates through March 2056. The Company provided an unconditional guarantee up to a maximum amount of $1,000 under a property sub-lease if the sub-lessor defaults. Expenses for leases that include escalated lease payments are recorded on a straight-line basis over that base lease period. Rent expense, including real estate taxes, insurance and maintenance expenses associated with net operating leases approximates $3,751 for 2010, $4,915 for 2009, and $4,396 for 2008. At March 31, 2010, total minimum rent payments under leases with initial or remaining non-cancelable lease terms of more than one year were:

| | Years ending March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
| Minimum operating lease rent payments | $ 3,592 | $ 3,239 | $ 3,198 | $ 3,150 | $ 2,556 | $ 7,957 |

The Company is obligated under capital lease arrangements for certain equipment. At March 31, 2010 and 2009, the amount of equipment recorded in property and equipment under capital leases were $256 and $1,047, respectively.

Below is a schedule of future payments under capital leases:

| | Years ending March 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | Total |
| Capital lease obligations | $ 193 | $ 57 | $ 6 | $ - | $ 256 |

Amortization of assets held under capital leases is included with depreciation expense.

Litigation:

Pending Legal Matters

There are currently 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, which disclosure has since been supplemented. 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 investigated this matter thoroughly. In December 2009, it also voluntarily submitted to French customs authorities a list of products that may have required prior export authorization. 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. The Company has incurred during fiscal 2010 approximately $534 in legal fees associated with the ITAR matters.

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 a sales performance based earn-out 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 March 31, 2010 since the contingencies were not determinable or achieved.

16. 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. Management continually assesses the Company's operating structure, and this structure could be modified further based on future circumstances and business conditions.

Geographic information, excluding discontinued operations, 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 years ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Net Sales: | | | |
| United States | $ 74,882 | $ 93,647 | $ 107,734 |
| France | 36,179 | 28,110 | 28,021 |
| Germany | 15,209 | 15,375 | 19,323 |
| Ireland | 20,815 | 12,041 | 12,969 |
| Switzerland | 11,196 | 13,070 | 4,396 |
| China | 51,329 | 41,700 | 55,940 |
| Total: | $ 209,610 | $ 203,943 | $ 228,383 |
| | | | |
| Long Lived Assets: | | | |
| United States | $ 7,010 | $ 7,754 | $ 6,624 |
| France | 7,940 | 7,860 | 6,808 |
| Germany | 2,334 | 2,253 | 2,817 |
| Ireland | 3,311 | 3,434 | 4,263 |
| Switzerland | 1,735 | 1,918 | 2,418 |
| China | 22,465 | 23,656 | 17,785 |
| Total: | $ 44,795 | $ 46,875 | $ 40,715 |

17. CONCENTRATIONS:

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 RMB, 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 United States 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. The Company has generally accepted the exposure to exchange rate movements without using derivative financial instruments to manage this risk. 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 consolidated financial statements.

The following table details annual net sales invoiced from our facilities within the U.S. and outside of the U.S. and as a percentage of total net sales for the last three years, as well as net assets and the related functional currencies:

| | For the years ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Net sales: | | | |
| U.S. facilities | $ 74,882 | $ 93,647 | $ 107,734 |
| U.S. facilities % of sales | 36% | 46% | 47% |
| Non-U.S. facilities | $ 134,728 | $ 110,296 | $ 120,649 |
| Non-U.S. facilities % of sales | 64% | 54% | 53% |
| | | | |
| Net assets (liabilities): | | | |
| U.S. dollar | $ 59,117 | $ 51,640 | $ 49,082 |

| | | | |
|---|---|---|---|
| Chinese renminbi | 14,862 | 22,419 | 17,306 |
| Hong Kong dollar | 75,301 | 61,588 | 63,827 |
| Euro | 14,998 | 18,273 | 19,562 |
| Japanese yen | 2,117 | 2,360 | 3,787 |
| Swiss franc | 601 | 996 | 2,225 |

The Company is exposed to credit losses in the event of nonperformance by counter parties to its financial instruments. The Company places cash with various major financial institutions in the United States, Europe, Hong Kong, and China. Cash held in foreign institutions amounted to $15,035 and $9,702 at March 31, 2010 and 2009, respectively. The Company periodically evaluates the relative credit standing of financial institutions considered in its cash investment strategy. Our emphasis is primarily on safety and liquidity of principal and secondarily on maximizing yield on those funds. Measurement Specialties Sensor (China) Ltd. is subject to certain Chinese government regulations, including currency exchange controls, which limit cash dividends and loans to Measurement Specialties Sensor (Asia) Limited and Measurement Specialties, Inc.

Accounts receivable are primarily concentrated in the United States and Europe. At March 31, 2010 and 2009, accounts receivable in the United States totaled $12,165 and $14,879, respectively, and accounts receivable in Europe totaled $14,358 and $11,237, respectively. To limit credit risk, the Company evaluates the financial condition and trade payment experience of customers to whom credit is extended. The Company does not require customers to furnish collateral, though certain foreign customers furnish letters of credit. In addition, concentrations of credit risk arising from trade accounts receivable are limited due to the diversity of the Company's customers. Notwithstanding these efforts, the current distress in the global economy may increase the difficulty in collecting accounts receivable.

The Company manufactures the substantial majority of its non-temperature sensor products in the Company's factories located at owned premises in Shenzhen, China. Sensors are also manufactured at the Company's United States leased facilities located in Virginia and California and at three of the Company's facilities in France, Germany and Switzerland. The Company manufactures a significant portion of the temperature sensors at leased facilities in Ohio, China and in Ireland. A larger portion of the Company's temperature sensors are manufactured by Betacera Inc., a Taiwanese-based contract manufacturer in China. Additionally, most of the Company's products contain key components, which are obtained from a limited number of sources. These concentrations in external and foreign sources of supply present risks of interruption for reasons beyond the Company's control, including, political, economic and legal uncertainties resulting from the Company's operations outside the U.S.

Our largest customer is a large U.S. OEM automotive supplier, and accounted for approximately 16% of our net sales during fiscal 2010, 14% of our net sales during fiscal 2009, and approximately 18% of our net sales during fiscal 2008. At March 31, 2010, the trade receivable with our largest customer was approximately $3,651. No other customers accounted for more than 10% during the fiscal years ended March 31, 2010, 2009, and 2008.

18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Presented below is a schedule of selected quarterly operating results.

| | First Quarter Ended June 30 | Second Quarter Ended September 30 | Third Quarter Ended December 31 | Fourth Quarter Ended March 31 |
|---|---|---|---|---|
| Year Ended March 31, 2010 | | | | |
| Net sales | $ 44,741 | $ 49,087 | $ 54,755 | $ 61,027 |
| Gross profit | 16,251 | 17,942 | 21,960 | 25,216 |
| Income (loss) from continuing operations attributable to MEAS | (1,365) | 166 | 3,382 | 4,302 |
| Income (loss) from discontinued operations net of taxes | - | (125) | (16) | - |
| Net income (loss) atttributable to MEAS | (1,477) | (57) | 3,248 | 4,202 |
| Earnings (loss) per share - continuing operations | | | | |
| EPS basic | (0.10) | - | 0.22 | 0.29 |
| EPS diluted | (0.10) | - | 0.22 | 0.28 |
| Loss per share - discontinued operations | | | | |
| EPS basic | - | (0.01) | - | - |
| EPS diluted | - | (0.01) | - | - |
| Year Ended March 31, 2009 | | | | |
| Net sales | $ 58,998 | $ 58,888 | $ 43,299 | $ 42,758 |
| Gross profit | 25,241 | 25,037 | 18,920 | 16,412 |
| Income (loss) from continuing operations attributable to MEAS | 3,932 | 3,811 | 982 | (3,058) |
| Net income (loss) atttributable to MEAS | 3,855 | 3,718 | 876 | (3,170) |
| Earnings (loss) per share - continuing operations | | | | |
| EPS basic | 0.27 | 0.26 | 0.06 | (0.22) |
| EPS diluted | 0.27 | 0.26 | 0.06 | (0.22) |
| Year Ended March 31, 2008 | | | | |
| Net sales | $ 53,151 | $ 56,462 | $ 55,991 | $ 62,779 |
| Gross profit | 22,884 | 23,361 | 23,469 | 25,647 |
| Income from continuing operations attributable to MEAS | 3,797 | 3,427 | 4,944 | 4,638 |
| Net income atttributable to MEAS | 3,745 | 3,369 | 4,904 | 4,424 |
| Earnings per share - continuing operations | | | | |
| EPS basic | 0.26 | 0.24 | 0.33 | 0.31 |
| EPS diluted | 0.26 | 0.23 | 0.33 | 0.31 |
| Loss per share - discontinued operations | | | | |
| EPS basic | - | - | - | (0.01) |
| EPS diluted | - | - | - | (0.01) |

Earnings per share are computed independently for each of the quarters presented, on the basis described in Note 13. The sum of the quarters may not be equal to the full year earnings per share amounts. Fiscal 2010 includes a number

of tax items recorded during the quarter ended September 30, 2009: $1,100 in additional income tax expense associated with the election to distribute certain undistributed earnings from the Company's Irish subsidiary; $651 income tax credit reducing income tax expense associated with the approval from the Swiss tax authorities reducing the Company's tax rate in Switzerland; and $266 income tax benefit associated with an R&D tax deduction. Additionally, during the quarter ended March 31, 2010, the Company recorded a $466 income tax benefit associated with the approval of High New Tech Enterprise from the Chinese tax authorities reducing the Company's tax rate in China. The Company recorded a tax provision for a valuation allowance of approximately $2,881 during the quarter ended March 31, 2009 for certain deferred tax assets associated with net operating loss carryforwards primarily at our German subsidiary. During the quarter ended December 31, 2008, the Company reversed the accruals for bonus compensation plan and 401(k) match totaling $676, and the Company recorded an adjustment to income for $500 to increase inventory balances related to the Intersema acquisition. During the quarter ended March 31, 2008, the Company reclassified interest income previously classified as discontinued operations to continuing operations and the Company reversed a foreign income tax payable totaling $597, as discussed in Note 12. During the quarter ended December 31, 2007, the Company recorded a net non-cash tax credit adjustment of $175 related to the revaluation of the net deferred tax assets for its MEAS China subsidiary due to a tax law change, and $349 in addition income tax expense for the accrual of a 5% withholding tax. During the quarter ended September 30, 2007, the Company recorded a $997 discrete non-cash income tax expense adjustment for the revaluation of the net deferred tax assets in Germany resulting from a recent decrease in the German tax rates. The Company assessed the impact of these adjustments relative to the first three quarters and prior year, and determined there was no material impact on the periods reported.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
Years Ended March 31, 2010, 2009, and 2008

| Col. A | Col. B | Col. C Additions | | Col. D | Col. E |
|---|---|---|---|---|---|
| Description | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts Describe | Deductions-Describe | Balance at End of Period |
| Year ended March 31, 2010 | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | $ 898 | $ (250) | $ - | $ (184) (a) | $ 464 |
| Inventory allowance | 3,489 | 1,140 | - | (866) (c) | 3,763 |
| Valuation allowance for deferred taxes | 3,048 | 26 | - | - | 3,074 |
| Warranty Reserve | 256 | 116 | - | (164) (d) | 208 |
| Year ended March 31, 2009 | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | $ 696 | $ 714 | $ (43) (e) | $ (469) (a) | $ 898 |
| Inventory allowance | 3,410 | 555 | (11) (e) | (465) (c) | 3,489 |
| Valuation allowance for deferred taxes | 167 | 2,881 | - | - | 3,048 |
| Warranty Reserve | 400 | (59) | (8) (e) | (77) (d) | 256 |
| Year ended March 31, 2008 | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | $ 516 | $ 220 | $ 44 (e) | $ (84) (a) | $ 696 |
| Inventory allowance | 3,158 | 696 | 32 (e) | (476) (c) | 3,410 |
| Valuation allowance for deferred taxes | 141 | 22 | - | 4 | 167 |
| Warranty Reserve | 401 | 409 | 10 (e) | (420) (d) | 400 |

Notes:
(a) Bad debts written off, net of recoveries
(b) Actual returns received
(c) Inventory sold or destroyed, production credit and foreign exchange
(d) Costs of product repaired or replaced and foreign exchange
(e) Recorded as part of purchase accounting