VISHAY INTERTECHNOLOGY INC
Form 10-Q
August 05, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2008

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

For the transition period from _________ to _________

Commission File Number 1-7416

VISHAY INTERTECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-1686453**
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification Number)
63 Lancaster Avenue **Malvern, PA 19355-2143**	**610-644-1300**
(Address of Principal Executive Offices)	(Registrant's Area Code and Telephone Number)

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. x Yes o No

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

As of August 1, 2008, the registrant had 172,070,549 shares of its common stock and 14,352,888 shares of its Class B common stock outstanding.

VISHAY INTERTECHNOLOGY, INC.

FORM 10-Q
JUNE 28, 2008

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Balance Sheets
(In thousands)

Assets	June 28, 2008 (Unaudited)	December 31, 2007
Current assets:		
Cash and cash equivalents	**$ 585,787**	$ 537,295
Accounts receivable, net	**462,693**	441,772
Inventories:		
Finished goods	**164,021**	159,713
Work in process	**243,823**	224,667
Raw materials	**181,653**	170,329
Deferred income taxes	**25,641**	26,426
Prepaid expenses and other current assets	**182,048**	153,988
Assets held for sale (see Note 2)	**-**	28,611
Total current assets	**1,845,666**	1,742,801
Property and equipment, at cost:		
Land	**103,244**	101,938
Buildings and improvements	**512,681**	485,342
Machinery and equipment	**2,101,710**	2,001,390
Construction in progress	**93,704**	101,659
Allowance for depreciation	**(1,593,365)**	(1,469,331)
	1,217,974	1,220,998
Goodwill	**882,140**	1,676,497
Other intangible assets, net	**198,512**	192,591
Other assets	**178,438**	162,348
Total assets	**$ 4,322,730**	$ 4,995,235

Continues on following page.

VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Balance Sheets (continued)
(In thousands)

	June 28,	December 31,

	2008 (Unaudited)	2007
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable to banks	**$ 36**	$ 30
Trade accounts payable	**158,183**	173,039
Payroll and related expenses	**143,327**	140,879
Other accrued expenses	**257,063**	235,728
Income taxes	**31,779**	34,653
Current portion of long-term debt	**263,105**	1,346
Liabilities related to assets held for sale (see Note 2)	**-**	11,253
Total current liabilities	**853,493**	596,928
Long-term debt less current portion	**344,204**	607,237
Deferred income taxes	**22,534**	24,216
Deferred grant income	**3,687**	1,044
Other liabilities	**131,797**	122,958
Accrued pension and other postretirement costs	**285,512**	280,713
Minority interest	**5,271**	5,364
Stockholders' equity:		
Common stock	**17,198**	17,198
Class B common stock	**1,435**	1,435
Capital in excess of par value	**2,254,411**	2,252,297
Retained earnings	**159,318**	925,575
Accumulated other comprehensive income	**243,870**	160,270
Total stockholders' equity	**2,676,232**	3,356,775
Total liabilities and stockholders' equity	**$ 4,322,730**	$ 4,995,235

See accompanying notes.

VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Statements of Operations
(Unaudited - In thousands, except earnings (loss) per share)

	Fiscal quarter ended June 28, 2008	Fiscal quarter ended June 30, 2007
Net revenues	**$ 774,364**	$ 715,861
Cost of products sold	**594,645**	537,946
Gross profit	**179,719**	177,915
Selling, general, and administrative expenses	**121,021**	113,254
Restructuring and severance costs	**8,909**	1,240
Asset write-downs	**-**	2,665
Impairment of goodwill	**800,000**	-
Operating income (loss)	**(750,211)**	60,756
Other income (expense):		
Interest expense	**(6,078)**	(7,407)
Other	**4,673**	4,348
	(1,405)	(3,059)
Income (loss) from continuing operations before taxes and minority interest	**(751,616)**	57,697

Income tax expense (benefit)		**(10,194)**		15,394
Minority interest		**269**		258
Income (loss) from continuing operations		**(741,691)**		42,045
Loss from discontinued operations, net of tax		**-**		(1,298)
Net earnings (loss)	**$**	**(741,691)**	$	40,747
Basic earnings (loss) per share:*				
Continuing operations	**$**	**(3.98)**	$	0.23
Discontinued operations	**$**	**-**	$	(0.01)
Net earnings (loss)	**$**	**(3.98)**	$	0.22
Diluted earnings (loss) per share:*				
Continuing operations	**$**	**(3.98)**	$	0.22
Discontinued operations	**$**	**-**	$	(0.01)
Net earnings (loss)	**$**	**(3.98)**	$	0.22
Weighted average shares outstanding - basic		**186,371**		185,422
Weighted average shares outstanding - diluted		**186,371**		192,578

See accompanying notes.
* May not add due to rounding.

VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Statements of Operations
(Unaudited - In thousands, except earnings (loss) per share)

	Six fiscal months ended			
		June 28, 2008		**June 30, 2007**
Net revenues	**$**	**1,507,677**	$	1,374,053
Cost of products sold		**1,155,495**		1,020,987
Gross profit		**352,182**		353,066
Selling, general, and administrative expenses		**240,084**		218,722
Restructuring and severance costs		**27,111**		3,266
Asset write-downs		**4,195**		2,665
Impairment of goodwill		**800,000**		-
Operating income (loss)		**(719,208)**		128,413
Other income (expense):				
Interest expense		**(12,662)**		(14,598)
Other		**4,475**		9,913
		(8,187)		(4,685)
Income (loss) from continuing operations before taxes and minority interest		**(727,395)**		123,728
Income tax expense (benefit)		**(4,021)**		31,172
Minority interest		**747**		547

Income (loss) from continuing operations		**(724,121)**		92,009
Loss from discontinued operations, net of tax		**(42,136)**		(1,298)
Net earnings (loss)	**$**	**(766,257)**	$	90,711
Basic earnings (loss) per share:*				
Continuing operations	**$**	**(3.89)**	$	0.50
Discontinued operations	**$**	**(0.23)**	$	(0.01)
Net earnings (loss)	**$**	**(4.11)**	$	0.49
Diluted earnings (loss) per share:*				
Continuing operations	**$**	**(3.89)**	$	0.48
Discontinued operations	**$**	**(0.23)**	$	(0.01)
Net earnings (loss)	**$**	**(4.11)**	$	0.47
Weighted average shares outstanding - basic		**186,357**		184,942
Weighted average shares outstanding - diluted		**186,357**		203,702

See accompanying notes.
* May not add due to rounding.

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VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Statements of Cash Flows
(Unaudited - In thousands)

	Six fiscal months ended			
		June 28, 2008		**June 30, 2007**
Continuing operating activities				
Net earnings (loss)	$	**(766,257)**	$	90,711
Adjustments to reconcile net earnings (loss) to net cash provided by continuing operating activities:				
Loss on discontinued operations, net of tax		**42,136**		1,298
Impairment of goodwill, net of tax		**770,000**		-
Depreciation and amortization		**110,929**		104,617
Gain on disposal of property and equipment		**(680)**		(1,380)
Minority interest in net earnings of consolidated subsidiaries		**747**		547
Asset write-downs		**4,195**		2,665
Inventory write-offs for obsolescence		**15,269**		12,886
Deferred grant income		**(807)**		(2,788)
Other		**(1,339)**		11,147
Changes in operating assets and liabilities, net of effects of businesses acquired		**(71,497)**		(126,204)
Net cash provided by continuing operating activities		**102,696**		93,499
Continuing investing activities				
Purchase of property and equipment		**(57,800)**		(73,736)
Proceeds from sale of property and equipment		**4,122**		951
Purchase of businesses, net of cash acquired		**(4,610)**		(330,930)
Proceeds from sale of businesses		**-**		18,517
Other investing activities		**100**		(1,862)
Net cash used in continuing investing activities		**(58,188)**		(387,060)

Continuing financing activities		
Principal payments on long-term debt and capital lease obligations	**(3,406)**	(2,656)
Debt issuance costs	**(1,355)**	-
Net (repayment) proceeds of revolving credit lines	**-**	(1,257)
Net changes in short-term borrowings	**6**	4,022
Proceeds from stock options exercised	**29**	20,600
Net cash (used in) provided by continuing financing activities	**(4,726)**	20,709
Effect of exchange rate changes on cash and cash equivalents	**17,351**	5,524
Net increase (decrease) in cash and cash equivalents from continuing activities	**57,133**	(267,328)
Net cash used by discontinued operating activities	**(10,071)**	(17,482)
Net cash provided (used) by discontinued investing activities	**1,430**	(109)
Net cash used by discontinued financing activities	**-**	-
Net cash used by discontinued operations	**(8,641)**	(17,591)
Net increase (decrease) in cash and cash equivalents	**48,492**	(284,919)
Cash and cash equivalents at beginning of period	**537,295**	671,586
Cash and cash equivalents at end of period	**$ 585,787**	$ 386,667

See accompanying notes.

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Vishay Intertechnology, Inc.
Notes to Consolidated Condensed Financial Statements
(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Vishay Intertechnology, Inc. (Vishay or the Company) have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for presentation of financial position, results of operations, and cash flows required by accounting principles generally accepted in the United States for complete financial statements. The information furnished reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair summary of the financial position, results of operations, and cash flows for the interim periods presented. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto filed with the Companys Annual Report on Form 10-K for the year ended December 31, 2007. The results of operations for the six fiscal months ended June 28, 2008 are not necessarily indicative of the results to be expected for the full year.

The Company reports interim financial information for 13-week periods beginning on a Sunday and ending on a Saturday, except for the first quarter, which always begins on January 1, and the fourth quarter, which always ends on December 31. The four fiscal quarters in 2008 end on March 29, 2008, June 28, 2008, September 27, 2008, and December 31, 2008. The four fiscal quarters in 2007 ended on March 31, 2007, June 30, 2007, September 29, 2007, and December 31, 2007, respectively.

Certain prior year amounts have been reclassified to conform to the current financial statement presentation.

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Note 2 Acquisition and Divestiture Activities

As part of its growth strategy, the Company seeks to expand through the acquisition of other manufacturers of electronic components that have established positions in major markets, reputations for product quality and reliability, and product lines with which the Company has substantial marketing and technical expertise.

As further described below, the Company acquired the Power Control Systems (PCS) business of International Rectifier Corporation on April 1, 2007. Vishay sold the automotive module and subsystems business acquired as part of the PCS business on April 7, 2008.

The Company also acquired PM Group PLC (PM Group) in April 2007. Concurrent with the acquisition of PM Group, Vishay sold PM Groups electrical contracting business.

During the first quarter of 2007, the Company sold two non-core product lines and recognized a gain of $1.8 million in operating income.

Acquisition of Power Control Systems Business

On April 1, 2007, Vishay completed its acquisition of the PCS business of International Rectifier Corporation for approximately $285.6 million, net of cash acquired. The transaction was funded using cash on-hand. The final purchase price is pending the resolution of a net working capital adjustment as of the date of acquisition. Resolution of the net working capital adjustment was deferred until International Rectifier could complete an internal investigation of its accounting practices. International Rectifier completed this investigation and reported its restated financial results on August 1, 2008. Vishay expects to resume negotiations to resolve the net working capital dispute in the third quarter of 2008.

The PCS business product lines include planar high-voltage MOSFETs, Schottky diodes, diode rectifiers, fast-recovery diodes, high-power diodes and thyristors, power modules (a combination of power diodes, thyristors, MOSFETs, and IGBTs), and automotive modules and subsystems. Vishay sold the automotive module and subsystems business acquired as part of the PCS business on April 7, 2008.

Vishay acquired all of the outstanding stock of six International Rectifier subsidiaries engaged in the conduct of the PCS business. Vishay also acquired certain assets of International Rectifier used in connection with the PCS business, principally intellectual property, inventory, and equipment.

The agreement provides that, for a period of seven years after the closing, International Rectifier and its affiliates will not engage in the PCS business anywhere in the world, subject to certain specified product exceptions.

At the closing of the transaction, Vishay and International Rectifier entered into four license agreements. Pursuant to these agreements, International Rectifier is licensing to Vishay certain of its patents and technology related to the PCS business on a non-exclusive, perpetual and royalty-free basis; International Rectifier is licensing to Vishay certain of its trademarks for specified periods of up to two years after closing; and Vishay is licensing back to International Rectifier patents and technology relating to the PCS business purchased by Vishay in the transaction, on a non-exclusive, perpetual and royalty-free basis. International Rectifiers use of the license back is subject to the non-competition arrangements described above.

Vishay and International Rectifier also entered into transition services and supply agreements, including a transition products services agreement relating to the provision by International Rectifier to Vishay of certain wafer and packaging services; an IGBT auto die supply agreement relating to the provision of certain die and other products by International Rectifier to Vishay; and a transition buyback agreement relating to the provision of certain die products by Vishay to International Rectifier.

The results of operations of the PCS business are included in the results of the Semiconductors segment from April 1, 2007, excluding the automotive modules and subsystems business unit, which is reported as discontinued operations as described below.

The acquisition has been accounted for under the purchase method of accounting in accordance with U.S. generally accepted accounting principles. Accordingly, the purchase price has been preliminarily allocated as follows, to the assets acquired and liabilities assumed based on their fair values, with the excess being allocated to goodwill *(in thousands)*:

Working capital	$	**4,272**
Property and equipment		**55,858**
Completed technology		**16,300**
Customer relationships		**21,900**
Tradenames		**2,300**

Other intangible assets	**2,200**
Net assets held for sale	**4,000**
Deferred taxes	**(6,500)**
Total identified assets and liabilities	**$ 100,330**
Purchase price, net of cash acquired	**$ 282,652**
Direct costs of acquisition	**2,950**
Total purchase price	**$ 285,602**
Goodwill	**$ 185,272**

The completed technology, customer relationships, tradenames, and other intangible assets will be amortized over weighted average useful lives of 10 years, 10 years, 3 years, and 1.5 years, respectively.

The goodwill associated with the transaction has been allocated to the Semiconductors reporting unit. The Company will test the goodwill for impairment at least annually in accordance with U.S. generally accepted accounting principles, or more frequently if there are triggering events (see Note 3). The goodwill associated with this acquisition is not deductible for income tax purposes.

In evaluating the acquisition of the PCS business, the Company focused primarily on the business's revenues and customer base, the strategic fit of the business's product line with the Company's existing product offerings, and opportunities for cost reductions and other synergies, rather than on the business's tangible assets, such as its property, equipment, and inventory. As a result, the fair value of the acquired assets corresponds to a relatively smaller portion of the acquisition price, with the Company recording a substantial amount of goodwill associated with the acquisition.

On April 9, 2007, International Rectifier announced an internal investigation of accounting irregularities. While the investigation was on-going, International Rectifier was precluded from discussing certain matters with Vishay, such as the net working capital adjustment to the acquisition price and certain tax issues associated with acquired subsidiaries. These matters could have an impact on the purchase price allocation.

International Rectifier completed this investigation and reported its restated financial results on August 1, 2008. In the next few weeks, Vishay expects to obtain requested information from International Rectifier that it has arranged to obtain and is known to be available or attainable. Until such information is obtained, the purchase price allocation is still considered to be "preliminary." Any future changes to the purchase price allocation related to the acquisition of the PCS business will be directly related to information obtained from International Rectifier subsequent to the completion of its investigation into its accounting practices. There can be no assurance that the estimated amounts will represent the final purchase price allocation.

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Sale of Automotive Modules and Subsystems Business

On April 7, 2008, Vishay sold the automotive modules and subsystems business unit ("ASBU") to a private equity firm. ASBU was originally acquired by Vishay as part of the April 1, 2007 acquisition of International Rectifier's Power Control Systems business. Vishay determined that ASBU would not satisfactorily complement Vishay's operations.

During Vishay's period of ownership of ASBU, the assets and liabilities of ASBU were separately reported in the consolidated condensed balance sheet as "assets held for sale" and "liabilities related to assets held for sale." Long-lived assets held for sale were not depreciated or amortized. The Company allocated no goodwill to ASBU in the purchase accounting for the PCS business.

Financial results of discontinued operations for the fiscal quarter and six fiscal months ended June 28, 2008 and June 30, 2007 are as follows *(in thousands)*:

	Fiscal quarter	Six fiscal months

	Fiscal quarter ended June 28, 2008	ended June 30, 2007	ended June 28, 2008	Six fiscal months ended June 30, 2007
Net revenues	**$ -**	$ 15,321	**$ 10,995**	$ 15,321
Loss before income taxes	**$ -**	$ (1,862)	**$ (38,224)**	$ (1,862)
Tax expense (benefit)	**-**	(564)	**3,912**	(564)
Loss from discontinued operations, net of tax	**$ -**	$ (1,298)	**$ (42,136)**	$ (1,298)

The loss before income taxes includes an impairment charge of $32.3 million, recorded in the first quarter of 2008, to reduce the carrying value of the net assets held for sale to the proceeds received on April 7, 2008.

The Company retained responsibility for the collection of certain customer accounts receivable on behalf of the buyer. These amounts are being remitted to the buyer upon collection. The Company also retained responsibility for certain severance costs and lease termination costs associated with ASBU.

The selling price for ASBU is subject to a working capital adjustment which is expected to be completed in the third quarter of 2008.

As additional consideration for the sale, Vishay is eligible to receive a portion of the proceeds of certain liquidity events involving ASBU, after the private equity firm has received distributions of its invested capital plus a specified return and after certain other payments. Given the uncertainties of this possible future receipt of proceeds, Vishay has ascribed zero value to this contingent consideration in estimating the impairment charge. Any consideration received upon future sale of ASBU by the private equity firm will be recorded as a gain on disposal of discontinued operations in future periods.

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Pro Forma Results

The unaudited pro forma results would have been as follows, assuming the acquisitions of the PCS business and PM Group had occurred as of January 1, 2007 *(in thousands, except per share amounts):*

	Fiscal quarter ended June 30, 2007	Six fiscal months ended June 30, 2007
Pro forma net revenues	$ 717,415	$ 1,445,938
Pro forma income from continuing operations	$ 41,953	$ 98,711
Pro forma loss from discontinued operations	(1,298)	(2,145)
Pro forma net earnings	$ 40,655	$ 96,566
Pro forma per share - basic:		
Income from continuing operations	$ 0.23	$ 0.53
Loss from discontinued operations	$ (0.01)	$ (0.01)
Net earnings	$ 0.22	$ 0.52
Pro forma per share - diluted:		
Income from continuing operations	$ 0.22	$ 0.51
Loss from discontinued operations	$ (0.01)	$ (0.01)
Net earnings	$ 0.21	$ 0.50

The pro forma information reflects adjustments to depreciation based on the fair value of property and equipment acquired, adjustments to amortization based on the fair value of intangible assets, and tax related effects.

The unaudited pro forma results are not necessarily indicative of the results that would have been attained had the acquisitions occurred at the beginning of the periods presented.

Subsequent Events

The Company acquired its partner's interest in a joint venture in India for approximately $9.6 million on June 30, 2008, in the Company's fiscal third quarter. Vishay previously owned 49% of this entity, which is engaged in the manufacture and distribution of transducers. Approximately $4.6 million of the purchase price was held in escrow at June 28, 2008 and is presented in other noncurrent assets.

In July 2008, the Company acquired Powertron GmbH, a manufacturer of foil resistors, for approximately $15 million, including the repayment of certain debt of Powertron.

Note 3 – Goodwill and Intangible Assets

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually. The Company performs its annual impairment test as of the first day of the fiscal fourth quarter. These impairment tests must be performed more frequently if there are triggering events.

In light of a sustained decline in market capitalization for Vishay and its peer group companies, and other factors, Vishay determined that an interim impairment test was necessary as of the end of the second fiscal quarter of 2008.

Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, prescribes a two-step method for determining goodwill impairment. In the first step, the Company determines the fair value of the reporting unit and compares that fair value to the net book value of the reporting unit. Since the adoption of SFAS No. 142 in 2002, the Company has applied a comparable companies market multiple approach to determine the fair value of its reporting units for step one of the SFAS No. 142 impairment test. The Company also utilized other valuation techniques, including a discounted cash flow analysis, to evaluate the reasonableness of the fair value determined using the market multiple approach.

Passive Components segment goodwill is allocated to two reporting units for SFAS No. 142 evaluation purposes, namely Other Passives and Measurements Group. The Semiconductors segment represents a single reporting unit for SFAS No. 142 evaluation purposes.

After completing step one of the impairment test as of June 28, 2008, the Company determined that the estimated fair value of its Semiconductors and Other Passives reporting units was less than the net book value of those reporting units, requiring the completion of the second step of the impairment test. The estimated fair value of the Measurements Group reporting unit was greater than the net book value of that unit, and accordingly, no second step was required for the Measurement Group reporting unit.

To measure the amount of the impairment, SFAS No. 142 prescribes that the Company determine the implied fair value of goodwill in the same manner as if the Company had acquired those business units. Specifically, the Company must allocate the fair value of the reporting unit to all of the assets of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. The impairment loss is measured as the difference between the book value of the goodwill and the implied fair value of the goodwill computed in step two.

As permitted by SFAS No. 142, when an impairment indicator arises toward the end of an interim reporting period, the Company may recognize its best estimate of that impairment loss. Based on a preliminary step two analysis prepared as of June 28, 2008, the Company determined that its best estimate of the impairment loss was $800 million, allocated $250 million to the goodwill of the Other Passives reporting unit and $550 million to the goodwill of the Semiconductors reporting unit.

The step two analysis prepared as of June 28, 2008 is preliminary and subject to completion in the third quarter of 2008. The completion of this analysis may result in the recognition of an additional impairment charge in the third quarter of 2008.

As a result of the analysis described above, the Company's goodwill was recorded at fair value. In accordance with FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, the Company has not applied SFAS No. 157 to the determination of the fair value of these assets (see Note 13). However, the provisions of SFAS No. 157 were applied to the determination of the fair value of financial assets and financial liabilities that were part of the SFAS No. 142 step two analysis.

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The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which the Company competes; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization, and capital expenditures. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, completed technology, tradenames, in-process research and development, customer relationships, and certain property and equipment (valued at replacement costs).

Due to the inherent uncertainty involved in making these estimates, actual financial results could differ from those estimates. Changes in expected financial results or other underlying assumptions would have a significant impact on either the fair value of the reporting unit or the amount of the goodwill impairment charge.

The goodwill impairment charge is noncash in nature and does not affect Vishay's liquidity, cash flows from operating activities, or debt covenants, or have any impact on future operations.

Prior to completing the interim assessment of goodwill for impairment during the second quarter of 2008, the Company performed a recoverability test of certain long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* and certain indefinite-lived intangible assets in accordance with SFAS No. 142. As a result of those assessments, the Company concluded that there was no impairment of these assets as of June 28, 2008.

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Note 4 – Restructuring and Severance Costs and Related Asset Write-Downs

Restructuring and severance costs reflect the cost reduction programs currently being implemented by the Company. These include the closing of facilities and the termination of employees. Restructuring and severance costs include onetime exit costs recognized pursuant to SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, severance benefits pursuant to an on-going benefit arrangement recognized pursuant to SFAS No. 112, *Employers' Accounting for Postemployment Benefits,* and related pension curtailment and settlement charges recognized pursuant to SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.* Severance costs also include executive severance and charges for the fair value of stock options of certain former employees which were modified such that they did not expire at termination. Restructuring costs are expensed during the period in which the Company determines it will incur those costs and all requirements of accrual are met. Because these costs are recorded based upon estimates, actual expenditures for the restructuring activities may differ from the initially recorded costs. If the initial estimates are too low or too high, the Company could be required either to record additional expenses in future periods or to reverse part of the previously recorded charges. Asset write-downs are principally related to buildings and equipment that will not be used subsequent to the completion of restructuring plans presently being implemented, and cannot be sold for amounts in excess of carrying value.

Second Quarter 2008

The Company recorded restructuring and severance costs of $8,909,000 for the second quarter of 2008. Employee termination costs were $8,667,000, covering technical, production, administrative, and support employees located in Austria, Belgium, Brazil, Germany, the Netherlands, Korea, and the United States. The Company also incurred $242,000 of other exit costs during the quarter, principally related to the closure of a facility in Brazil. The restructuring and severance costs were incurred as part of the continuing cost reduction programs currently being implemented by the Company.

Six Fiscal Months Ended June 28, 2008

The Company recorded restructuring and severance costs of $27,111,000 for the six fiscal months ended June 28, 2008. Employee termination costs were $24,951,000, covering technical, production, administrative, and support employees located in Austria, Brazil, Belgium, the People□s Republic of China, France, Germany, Hungary, the Netherlands, Korea, and the United States. The Company also incurred $2,160,000 of other exit costs, principally related to the closure of a facility in Brazil. The restructuring and severance costs were incurred as part of the continuing cost reduction programs currently being implemented by the Company.

As a result of the decision to close its facility in Brazil, the Company completed a long-lived asset impairment analysis during the first quarter of 2008 and determined that various fixed assets and intangible assets were impaired. The Company recorded fixed asset write-downs of $3,419,000 and intangible asset write-downs of $776,000.

The following table summarizes activity to date related to restructuring programs initiated in 2008 *(in thousands, except for number of employees):*

	Severance Costs	Other Exit Costs	Total	Employees to be Terminated
Restructuring and severance costs	**$ 24,951**	**$ 2,160**	**$ 27,111**	**591**
Utilized	**(8,514)**	**(83)**	**(8,597)**	**(172)**
Foreign currency translation	**296**	**121**	**417**	**-**
Balance at June 28, 2008	**$ 16,733**	**$ 2,198**	**$ 18,931**	**419**

Most of the accrued restructuring liability, currently shown in other accrued expenses, is expected to be paid by December 31, 2008. The payment terms related to these restructuring programs varies, usually based on local customs and laws. Most severance amounts are paid in a lump sum at termination, while some payments are structured to be paid in installments.

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Second Quarter 2007

The Company recorded restructuring and severance costs of $1,240,000 for the second quarter of 2007. Employee termination costs were $995,000 covering technical, production, administrative and support employees located in Belgium, Germany, Hungary, and the United States. The Company also incurred $245,000 of other exit costs during the quarter. The restructuring and severance costs were incurred as part of the continuing cost reduction programs currently being implemented by the Company. The Company also recorded an asset write-down of $2,665,000 to reduce the carrying value of a building to its expected selling price. The building had been vacated as part of restructuring activities.

Six Fiscal Months Ended 2007

The Company recorded restructuring and severance costs of $3,266,000 for the six fiscal months ended June 30, 2007. Employee termination costs were $1,821,000, covering technical, production, administrative and support employees located in Belgium, Germany, Hungary, and the United States. The Company also incurred $1,445,000 of other exit costs during the quarter, principally to consolidate warehouse facilities in the United States. The restructuring and severance costs were incurred as part of the continuing cost reduction programs currently being implemented by the Company. The Company also recorded an asset write-down of $2,665,000 to reduce the carrying value of a building to its expected selling price. The building had been vacated as part of restructuring activities.

Year Ended December 31, 2007

The Company recorded restructuring and severance costs during the year ended December 31, 2007 as follows *(in thousands)*:

	Severance Costs	Other Exit Costs	Total
Programs initiated in 2007	$ 15,432	$ 2,572	$ 18,004
Changes in estimate			
from prior year programs	(3,323)	-	(3,323)
Net restructuring and severance costs	$ 12,109	$ 2,572	$ 14,681

Employee termination costs covered technical, production, administrative and support employees located in Belgium, China, France, Germany, Hungary, and the United States. Other exit costs were principally to consolidate warehouse facilities in the United States. The restructuring and severance costs were incurred as part of the continuing cost reduction programs currently being implemented by the Company. The Company also recorded asset write-downs of $3,869,000 to reduce the carrying value of buildings. The buildings had been vacated as part of restructuring activities. Certain of these buildings are held-for-sale and classified as other assets. Others are being leased to third-parties and were reduced to their fair value based on the present value of future lease receipts.

Also during the year ended December 31, 2007, the Company sold a building that had been vacated as part of its restructuring programs and recognized a gain of $3,118,000, which is recorded within selling, general, and administrative expenses.

The following table summarizes activity to date related to restructuring programs initiated in 2007 *(in thousands, except for number of employees):*

	Severance Costs	Other Exit Costs	Total	Employees to be Terminated
Restructuring and severance costs	$ 15,432	$ 2,572	$ 18,004	326
Utilized	(2,553)	(2,557)	(5,110)	(209)
Foreign currency translation	356	-	356	-
Balance at December 31, 2007	$ 13,235	$ 15	$ 13,250	117
Utilized	(4,044)	(11)	(4,055)	(85)
Foreign currency translation	1,017	1	1,018	-
Balance at June 28, 2008	$ 10,208	$ 5	$ 10,213	32

Most of the accrued restructuring liability, currently shown in other accrued expenses, is expected to be paid by December 31, 2008. The payment terms related to these restructuring programs varies, usually based on local customs and laws. Most severance amounts are paid in a lump sum at termination, while some payments are structured to be paid in installments.

Year Ended December 31, 2006

At December 31, 2007, approximately $2.0 million of costs were accrued related to programs initiated in 2006. Most of the remaining accrued restructuring liability for plans initiated in 2006 was paid during the second quarter of 2008.

Note 5 Income Taxes

The provision for income taxes consists of provisions for federal, state, and foreign income taxes. The effective tax rates for the periods ended June 28, 2008 and June 30, 2007 reflect the Companys expected tax rate on reported income from continuing operations before income tax and tax adjustments. The Company operates in an international environment with significant operations in various locations outside the United States. Accordingly, the consolidated income tax rate is a composite rate reflecting the Companys earnings and the applicable tax rates in the various locations where the Company operates.

The vast majority of the Companys goodwill is not deductible for income tax purposes. The Company recognized tax benefits of approximately $30 million during the second quarter of 2008 associated with the $800 million goodwill impairment charge discussed in Note 3.

In order to meet the obligation to repurchase the convertible subordinated notes on August 1, 2008 (see Note 6), the Company repatriated approximately $250 million of cash from non-U.S. subsidiaries. This repatriation of cash resulted in net tax expense of approximately $9.9 million, recorded in the second quarter of 2008, after the utilization of net operating losses and tax credits.

During the six fiscal months ended June 28, 2008, the liabilities for unrecognized tax benefits increased by a net $7.7 million, due principally to increases for tax positions taken during the period (approximately $7.0 million) and foreign currency effects (approximately $2.6 million), partially offset by a decrease due to the repatriation of cash (approximately $1.9 million).

During the second quarter of 2007, the Company recorded additional tax expense for changes in uncertain tax positions of approximately $3.4 million related to tax positions taken in prior years.

Note 6 Long-Term Debt

Credit Facility

On June 24, 2008, the Company entered into its Fourth Amended and Restated Credit Agreement. The amended credit facility amends certain terms of the Third Amended and Restated Credit Agreement, dated as of April 20, 2007, including the applicable interest rates with respect to borrowings under the revolving credit commitment. The new credit facility continues to provide a revolving credit commitment of up to $250 million through April 20, 2012.

Interest on the revolving credit commitment is payable at prime or other variable interest rate options. The Company is required to pay facility commitment fees. The amended credit facility continues to restrict the Company from paying cash dividends and requires the Company to comply with other covenants, including the maintenance of specific financial ratios. The Company is in compliance with all covenants. In July 2008, the Company borrowed $125 million under the revolving credit facility for the purpose of repurchasing the Companys 3-5/8% convertible subordinated notes due 2023 (as further described below).

The borrowings under the amended credit facility continue to be secured by pledges of stock in certain significant subsidiaries and certain guarantees by significant subsidiaries. The subsidiaries would be required to perform under the guarantees in the event that the Company failed to make principal or interest payments under the credit facility. Certain of the Companys subsidiaries are permitted to borrow under the credit facility. Any borrowings by these subsidiaries under the credit facility are guaranteed by the Company.

In addition, the amended credit facility provides for a new senior secured term loan commitment of up to $125 million. The $125 million principal amount of such loan was drawn in July 2008 for the purpose of repurchasing the Companys 3-5/8% convertible subordinated notes due 2023 (as further described below). The principal amount of such term loan will be due as follows:

January 1, 2009	$12.5 million
July 1, 2009	$12.5 million
January 1, 2010	$12.5 million
July 1, 2010	$12.5 million
January 1, 2011	$37.5 million
July 1, 2011	$37.5 million

Pursuant to the terms of the amended credit facility, there are no penalties for early payments of the term loan. Prepayments of the term loan principal would reduce all future principal payments under the term loan.

The borrowings under the new term loan commitment, based on current leverage ratios, will bear interest at LIBOR plus 2.50%.

No amounts were outstanding under the revolving credit facility, including the term loan commitment, at June 28, 2008.

Convertible Subordinated Notes, due 2023

Holders of the Company's 3-5/8% convertible subordinated notes had the right to require the Company to repurchase all or some of their notes at a purchase price equal to 100% of their principal amount of the notes, plus accrued and unpaid interest on August 1, 2008 (and other dates specified in the notes).

Substantially all (99.6%) of the holders of the 3-5/8% notes exercised their option to require the Company to repurchase their notes on August 1, 2008. The purchase price was paid in cash and funded from approximately $250 million of cash on-hand, $125 million of borrowings under the revolving credit facility described above, and $125 million from the term loan commitment described above. The borrowings under the revolving credit facility used to fund the purchase price for the Notes, based on current leverage ratios, will bear interest at LIBOR plus 1.00%. Notes with an aggregate principal amount of $1,870,000 remain outstanding.

The portion of the notes refinanced on a long-term basis ($237.5 million) is shown as long-term debt on the Company's consolidated condensed balance sheet as of June 28, 2008, and the remaining amount of the notes ($262.5 million) is presented as a current liability as of June 28, 2008.

The purchase price for the notes is equal to their principal amount, and accordingly, the Company will not recognize any gain or loss on the repurchase of the Notes. However, as a consequence of the extinguishment of the notes prior to their stated maturity date of 2023, in the third quarter of 2008, the Company will be required to write-off approximately $14 million of unamortized debt issuance costs associated with the 2003 issuance of the notes.

Note 7 – Comprehensive Income (Loss)

Comprehensive income (loss) includes the following components *(in thousands)*:

	Fiscal quarter ended		Six fiscal months ended	
	June 28, 2008	**June 30, 2007**	**June 28, 2008**	**June 30, 2007**
Net earnings (loss)	**$ (741,691)**	$ 40,747	**$ (766,257)**	$ 90,711
Other comprehensive income (loss):				
Foreign currency translation adjustment	**376**	6,451	**80,979**	18,569

Unrealized gain (loss) on available for sale securities	**(176)**	2	**(393)**	(38)
Pension and other postretirement adjustments	**1,564**	1,996	**3,014**	4,919
Total other comprehensive income	**1,764**	8,449	**83,600**	23,450
Comprehensive income (loss)	**$ (739,927)**	$ 49,196	**$ (682,657)**	$ 114,161

Other comprehensive income (loss) includes Vishay’s proportionate share of other comprehensive income (loss) of nonconsolidated subsidiaries accounted for under the equity method.

Note 8 — Pensions and Other Postretirement Benefits

The Company maintains various retirement benefit plans.

The following table shows the components of the net periodic pension cost for the second quarters of 2008 and 2007 for the Company’s defined benefit pension plans *(in thousands)*:

	Fiscal quarter ended June 28, 2008		**Fiscal quarter ended June 30, 2007**	
	U.S. Plans	**Non-U.S. Plans**	**U.S. Plans**	**Non-U.S. Plans**
Net service cost	**$ 903**	**$ 1,188**	$ 1,098	$ 1,169
Interest cost	**4,146**	**3,396**	3,960	2,693
Expected return on plan assets	**(5,216)**	**(677)**	(5,132)	(732)
Amortization of prior service cost	**(42)**	**-**	81	-
Amortization of losses	**662**	**870**	807	1,225
Net periodic benefit cost	**$ 453**	**$ 4,777**	$ 814	$ 4,355

The following table shows the components of the net periodic pension cost for the six fiscal months ended June 28, 2008 and June 30, 2007 for the Company’s defined benefit pension plans *(in thousands)*:

	Six fiscal months ended June 28, 2008		**Six fiscal months ended June 30, 2007**	
	U.S. Plans	**Non-U.S. Plans**	**U.S. Plans**	**Non-U.S. Plans**
Net service cost	**$ 2,070**	**$ 2,348**	$ 2,326	$ 2,327
Interest cost	**8,309**	**6,673**	7,935	5,326
Expected return on plan assets	**(10,440)**	**(1,357)**	(10,276)	(1,451)
Amortization of prior service cost	**(84)**	**-**	162	-
Amortization of losses	**1,128**	**1,734**	1,662	2,439
Net periodic benefit cost	**$ 983**	**$ 9,398**	$ 1,809	$ 8,641

The following table shows the components of the net periodic benefit cost for the second quarters of 2008 and 2007 for the Company’s other postretirement benefit plans *(in thousands)*:

	Fiscal quarter ended	**Fiscal quarter ended**

	June 28, 2008		June 30, 2007	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	**$ 54**	**$ 103**	$ 59	$ 114
Interest cost	**275**	**109**	286	90
Amortization of prior service cost	**19**	**-**	21	-
Amortization of transition obligation	**48**	**-**	48	-
Amortization of gains	**(157)**	**-**	(6)	-
Net periodic benefit cost	**$ 239**	**$ 212**	$ 408	$ 204

The following table shows the components of the net periodic pension cost for the six fiscal months ended June 28, 2008 and June 30, 2007 for the Company's other postretirement benefit plans *(in thousands)*:

	Six fiscal months ended June 28, 2008		Six fiscal months ended June 30, 2007	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	**$ 108**	**$ 202**	$ 118	$ 225
Interest cost	**550**	**212**	572	178
Amortization of prior service cost	**38**	**-**	42	-
Amortization of transition obligation	**96**	**-**	96	-
Amortization of gains	**(314)**	**-**	(12)	-
Net periodic benefit cost	**$ 478**	**$ 414**	$ 816	$ 403

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Note 9 Stock-Based Compensation

As of December 31, 2007, the Company had four active stockholder-approved stock option programs, namely the 1997 Stock Option Program, the 1998 Stock Option Program, a stock option plan assumed in the 2001 acquisition of General Semiconductor, Inc., and the 2007 Stock Option Program.

The Company also has a stockholder-approved Phantom Stock Plan which grants phantom stock units to certain executives as part of their employment agreements with the Company, and two employee stock plans under which restricted stock may be granted.

These plans are more fully described in Note 12 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2007.

On March 16, 2008, the stockholder approval for the 1998 Stock Option Program expired. No additional options may be granted pursuant to this plan.

On May 28, 2008, the Company's stockholders approved amendments to the 2007 Stock Option Program (renamed the 2007 Stock Incentive Program) (the "2007 Program"). The amended 2007 Program permits the grant of restricted stock, unrestricted stock, and restricted stock units ("RSUs") in addition to stock options, and permits grants of stock options, restricted stock, unrestricted stock, and RSUs to non-employee directors.

Stock Options

Option activity under the stock option plans as of June 28, 2008 and changes in the six fiscal months then ended are presented below *(number of options in thousands)*:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding:			
December 31, 2007	**4,691**	**$ 18.09**	
Granted	**-**	**-**	
Exercised	**(5)**	**5.60**	
Cancelled	**(268)**	**21.67**	
Outstanding at June 28, 2008	**4,418**	**$ 17.89**	**2.81**
Vested and expected to vest at June 28, 2008	**4,418**	**$ 17.89**	**2.81**
Exercisable at June 28, 2008	**3,935**	**$ 17.99**	**1.94**

During the six fiscal months ended June 28, 2008, 91,000 options vested. At June 28, 2008, there are 483,000 unvested options outstanding, with a weighted average grant-date fair value of $10.03 per option.

The Company determines compensation cost for stock options based on the grant-date fair value of the options granted. Compensation cost is recognized over the period that an employee provides service in exchange for the award. There were no options granted during the six fiscal months ended June 28, 2008.

During the six fiscal months ended June 28, 2008 and June 30, 2007, the Company recorded pretax compensation expense (within selling, general, and administrative expenses) associated with employee stock options of $923,000 and $389,000, respectively. At June 28, 2008, there was approximately $3.2 million of unrecognized compensation cost related to unvested stock options.

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The aggregate pretax intrinsic value (the difference between the closing stock price on the last trading day of the second quarter of 2008 of $9.32 per share and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 28, 2008 would be approximately $0.6 million. This amount changes based on changes in the fair market value of the Company's common stock. The total intrinsic value of options exercised during the six fiscal months ended June 28, 2008 was not material.

Phantom Stock Plan

On both January 2, 2008 and January 3, 2007, the Company granted 25,000 phantom stock units pursuant to employment agreements between the Company and certain executives. In the first quarter of 2008 and 2007, the Company recognized compensation expense of $286,000 and $344,000, respectively, equal to the market value of the underlying stock on the date of grant.

Restricted Stock Units

In May 2008, 480,000 RSUs were granted to certain officers and directors. Each RSU entitles the recipient to receive a share of common stock when the RSU vests. The RSUs granted in May 2008 vest as follows:

- 168,000 RSUs granted to officers vest in six equal installments beginning on the grant date and each of the first five anniversaries of that date.
- 144,000 RSUs granted to directors vest in three equal installments beginning on the grant date and each of the first two anniversaries of that date.
- 168,000 RSUs granted to officers will vest, provided that certain 2008 performance conditions are attained, in six equal installments on the first six anniversaries of the grant date. If the performance conditions are not attained, these RSUs will be forfeited.

RSU activity for the period ended June 28, 2008 is presented below *(number of RSUs in thousands)*:

	Number of RSUs	Grant date fair value per unit	Weighted Average Remaining Vesting Period (Years)
Outstanding:			
Granted	**480**	**$ 9.88**	
Vested	**(76)**		
Cancelled	**-**		
Outstanding at June 28, 2008	**404**		**2.77**
Expected to vest at June 28, 2008	**236**		**2.31**

The Company determines compensation cost for RSUs based on the grant-date fair value of the underlying common stock. Compensation cost is recognized over vesting period for those RSUs expected to vest. During the six fiscal months ended June 28, 2008, the Company recorded pretax compensation expense (within selling, general, and administrative expenses) associated with RSUs of $863,000. At June 28, 2008, there was approximately $3.9 million of unrecognized compensation cost related to unvested RSUs, including approximately $1.7 million of unrecognized compensation cost for RSUs for which the achievement of performance-based vesting criteria is not probable.

Note 10 Commitments and Contingencies

Semiconductor Foundry Agreements

Our Siliconix subsidiary maintains long-term foundry agreements with subcontractors to ensure access to external front-end capacity.

In 2004, Siliconix signed a definitive long-term foundry agreement for semiconductor manufacturing with Tower Semiconductor (the 2004 agreement), pursuant to which Siliconix would purchase semiconductor wafers from and transfer certain technology to Tower Semiconductor. Pursuant to the 2004 agreement, Siliconix was required to place orders valued at approximately $200 million for the purchase of semiconductor wafers to be manufactured in Towers Fab 1 facility over a seven to ten year period. The 2004 agreement specified minimum quantities per month and a fixed quantity for the term of the agreement. Siliconix was required to pay for any short-fall in minimum order quantities specified under the agreement through the payment of penalties equal to unavoidable fixed costs.

Pursuant to the 2004 agreement, Siliconix advanced $20 million to Tower in 2004, to be used for the purchase of additional equipment required to satisfy Siliconixs orders. This advance was considered a prepayment on future wafer purchases, reducing the per wafer cost to Siliconix over the term of the agreement.

During 2007, Siliconix was committed to purchase approximately $22 million of semiconductor wafers, but did not meet its commitments due to changing market demand for products manufactured using wafers supplied by Tower. Siliconix was required to pay penalties of approximately $1.7 million, which were recorded as a component of cost of products sold.

In January 2008, Siliconix reached an agreement in principle to revise the 2004 agreement to more accurately reflect market demand. Based on the penalties paid in 2007 and the agreement in principle, during the fourth quarter of 2007, the Company recorded a write-off of the remaining prepaid balance of $16,393,000, and accrued an additional $2,500,000 based on its best estimate of additional contract termination charges related to the original agreement.

At December 31, 2007, the remaining future purchase commitments under the 2004 agreement were approximately $160 million.

In March 2008, Siliconix and Tower entered into an amended and restated foundry agreement (the 2008 agreement). Pursuant to the 2008 agreement, Tower will continue to manufacture wafers covered by the 2004 agreement, but at lower quantities and at lower prices, through 2009. Tower will also begin manufacturing wafers for other product lines acquired as part of the PCS acquisition through 2012, pending a scheduled technology transfer. Siliconix must pay for any short-fall in the reduced minimum order quantities specified under the 2008 agreement through the payment of penalties equal to unavoidable fixed costs. Additionally, as contemplated by the 2007 contract termination charge, Siliconix agreed to forgive the prepayment amount and pay a $2,500,000 contract termination charge.

Management estimates its minimum purchase commitments under the 2008 agreement as follows *(in thousands)*:

2008	$	20,400
2009		14,700
2010		8,400
2011		8,800
2012		8,800

Siliconix has granted Tower an option to produce additional wafers under this agreement, as needed by Siliconix, and accordingly, actual purchases from Tower may be greater than the commitments disclosed above.

These purchase commitments are for the manufacture of proprietary products using Siliconix-owned technology licensed to Tower by Siliconix, and accordingly, management can only estimate the market price of the wafers which are the subject of the 2008 agreement. Management believes that these commitments are at prices that are not in excess of current market prices.

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Subsequent Event Executive Employment Agreements

The Company has employment agreements with five of its executives. With the exception of the employment arrangement with Dr. Felix Zandman, Executive Chairman and founder of the Company, the executive employment agreements contain severance provisions providing generally for 3 years of compensation in the case of a termination without cause or a voluntary termination by the executive for good reason as defined in the employment agreement. Specifically, severance items include:

- salary continuation for three years, payable over three years;
- 5,000 shares of common stock annually for three years;
- bonus for the year of termination;
- $1,500,000 lump sum cash payment. This payment replaces the annual deferred compensation credits and the annual bonus for the 3-year severance period; and
- lifetime continuation of executives life insurance and medical benefit up to $15,000 annual premium value.

On July 30, 2008, the Board of Directors was notified that Richard N. Grubb, the Companys Chief Financial Officer, would be stepping down for good reason effective September 1, 2008, in connection with a change in the corporate finance and accounting function of the Company. The Company will record a charge in the third quarter of 2008 associated with Mr. Grubbs termination.

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Note 11 Segment Information

Vishay designs, manufactures, and markets electronic components that cover a wide range of products and technologies. The Company has two reportable segments: Semiconductors, consisting principally of diodes, transistors, power MOSFETs, power conversion and motor control integrated circuits, optoelectronic components, and IRDCs; and Passive Components, consisting principally of fixed resistors, solid tantalum surface mount chip capacitors, solid tantalum leaded capacitors, wet/foil tantalum capacitors, multi-layer ceramic chip capacitors, film capacitors, inductors, transducers, strain gages, and load cells.

The Company evaluates business segment performance based upon operating income, exclusive of certain items (segment operating income). Management believes that evaluating segment performance excluding items such as goodwill impairment, restructuring and severance, asset write-downs, inventory write-downs, losses on purchase commitments, contract termination charges, charges for in-process research and development, and other items is meaningful because it provides insight with respect to intrinsic operating results of the Company. These items, and unallocated corporate expenses, represent reconciling items between segment operating income and consolidated operating income. Business segment assets are the owned or allocated assets used by each business segment. The following table sets forth business segment information for the fiscal quarters and six fiscal months ended June 28, 2008 and June 30, 2007 *(in thousands)*:

	Fiscal quarter ended		**Six fiscal months ended**	
	June 28, 2008	**June 30, 2007**	**June 28, 2008**	**June 30, 2007**
Net revenues:				
Semiconductors				
Product sales	**$ 407,265**	$ 378,684	**$ 793,327**	$ 699,350
Royalty revenues	**178**	1,003	**1,896**	3,270
Total Semiconductors	**407,443**	379,687	**795,223**	702,620
Passive Components				
Product sales	**366,921**	336,174	**712,454**	671,433
Total Passive Components	**366,921**	336,174	**712,454**	671,433
	$ 774,364	$ 715,861	**$ 1,507,677**	$ 1,374,053
Segment operating income:				
Semiconductors	**$ 37,813**	$ 43,508	**$ 74,724**	$ 84,118
Passive Components	**30,084**	29,545	**53,823**	66,055
Corporate	**(9,199)**	(8,392)	**(16,449)**	(15,829)
Restructuring and severance costs	**(8,909)**	(1,240)	**(27,111)**	(3,266)
Asset write-downs	**-**	(2,665)	**(4,195)**	(2,665)
Impairment of goodwill	**(800,000)**	-	**(800,000)**	-
Consolidated operating income (loss)	**$ (750,211)**	$ 60,756	**$ (719,208)**	$ 128,413
Restructuring and severance costs:				
Semiconductors	**$ 3,071**	$ 618	**$ 4,202**	$ 836
Passive Components	**5,838**	622	**22,909**	2,430
	$ 8,909	$ 1,240	**$ 27,111**	$ 3,266
Asset write-downs:				
Semiconductors	**$ -**	$ 2,665	**$ -**	$ 2,665
Passive Components	**-**	-	**4,195**	-
	$ -	$ 2,665	**$ 4,195**	$ 2,665
Impairment of goodwill:				
Semiconductors	**$ 550,000**	$ -	**$ 550,000**	$ -
Passive Components	**250,000**	-	**250,000**	-
	$ 800,000	$ -	**$ 800,000**	$ -

The goodwill impairment charge (see Note 3) and transfers of cash prior to the repurchase of the convertible subordinated notes (see Note 6) result in a material change in the total assets by segment from the amount disclosed in the Company's last annual report.

Total assets by segment are as follows *(in thousands)*:

	June 28, 2008	December 31, 2007
Semiconductors	**$ 1,943,176**	$ 2,693,668
Passive Components	**2,300,179**	2,209,724
Corporate	**79,375**	91,843
	$ 4,322,730	$ 4,995,235

Corporate assets include corporate cash, property and equipment, and certain other assets.

Note 12 Earnings Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share *(in thousands, except earnings (loss) per share)*:

	Fiscal quarter ended		Six fiscal months ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Numerator:				
Numerator for basic earnings (loss) per share:				
Income (loss) from continuing operations	**$ (741,691)**	$ 42,045	**$ (724,121)**	$ 92,009
Loss from discontinued operations	**-**	(1,298)	**(42,136)**	(1,298)
Net earnings (loss)	**$ (741,691)**	$ 40,747	**$ (766,257)**	$ 90,711
Adjustment to the numerator for continuing operations and net earnings (loss):				
Interest savings assuming conversion of dilutive convertible and exchangeable notes, net of tax	**-**	913	**-**	4,918
Numerator for diluted earnings (loss) per share:				
Income (loss) from continuing operations	**$ (741,691)**	$ 42,958	**$ (724,121)**	$ 96,927
Loss from discontinued operations	**-**	(1,298)	**(42,136)**	(1,298)
Net earnings (loss)	**$ (741,691)**	$ 41,660	**$ (766,257)**	$ 95,629
Denominator:				

Denominator for basic earnings (loss) per share:								
Weighted average shares		**186,371**		185,422		**186,357**		184,942
Effect of dilutive securities:								
Convertible and exchangeable notes		**-**		6,177		**-**		17,925
Employee stock options		**-**		872		**-**		728
Other		**-**		107		**-**		107
Dilutive potential common shares		**-**		7,156		**-**		18,760
Denominator for diluted earnings (loss) per share:								
Adjusted weighted average shares		**186,371**		192,578		**186,357**		203,702
Basic earnings (loss) per share:*								
Continuing operations	**$**	**(3.98)**	$	0.23	**$**	**(3.89)**	$	0.50
Discontinued operations	**$**	**-**	$	(0.01)	**$**	**(0.23)**	$	(0.01)
Net earnings (loss)	**$**	**(3.98)**	$	0.22	**$**	**(4.11)**	$	0.49
Diluted earnings (loss) per share:*								
Continuing operations	**$**	**(3.98)**	$	0.22	**$**	**(3.89)**	$	0.48
Discontinued operations	**$**	**-**	$	(0.01)	**$**	**(0.23)**	$	(0.01)
Net earnings (loss)	**$**	**(3.98)**	$	0.22	**$**	**(4.11)**	$	0.47

* May not add due to rounding.

Diluted earnings (loss) per share for the periods presented do not reflect the following weighted average potential common shares, as the effect would be antidilutive *(in thousands)*:

	Fiscal quarter ended		**Six fiscal months ended**	
	June 28, 2008	**June 30, 2007**	**June 28, 2008**	**June 30, 2007**
Convertible and exchangeable notes:				
Convertible Subordinated Notes, due 2023	**23,496**	23,496	**23,496**	11,748
Exchangeable Unsecured Notes, due 2102	**6,176**	-	**6,176**	-
Weighted average employee stock options	**4,431**	2,527	**4,483**	3,297
Weighted average warrants	**8,824**	8,824	**8,824**	8,824
Weighted average other	**267**	-	**201**	-

In periods in which they are dilutive, if the potential common shares related to the convertible and exchangeable notes are included in the computation, the related interest savings, net of tax, assuming conversion/exchange is added to the net earnings used to compute earnings per share.

The Convertible Subordinated Notes, due 2023 were only convertible upon the occurrence of certain events. While none of these events has occurred as of June 28, 2008, certain conditions which could trigger conversion have been deemed to be non-substantive, and accordingly, the Company has always considered these notes in its diluted earnings per share computation during periods in which they are dilutive. (As described in Note 6, these notes were repurchased on August 1, 2008.)

In June 2007, the Companys Board of Directors adopted a resolution pursuant to which the Company intends to waive its rights to settle the principal amount of the Convertible Subordinated Notes, due 2023, in shares of Vishay common stock. Accordingly, the notes are included in the diluted earnings per share computation using the treasury stock method (similar to options and warrants) rather than the if converted method otherwise required for convertible debt. Under the treasury stock method, Vishay calculates the number of shares issuable under the terms of the notes based on the average market price of Vishay common stock during the period, and that number is included in the total diluted shares figure for the period. If the average market price is less than $21.28, no shares are included in the diluted earnings per share computation. For the six fiscal months ended June 30, 2007, the computation of diluted earnings per share is weighted for the periods that the notes were considered conventional convertible debt and for the period the notes were considered net share settlement securities.

<u>Note 13 New Accounting Pronouncements</u>

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, provides guidance for measuring fair value, and requires additional disclosures. This statement does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 was to be effective for Vishay as of January 1, 2008. In February 2008, the FASB issued Staff Position (FSP) No. 157-2, which provides a one-year delayed application of SFAS No. 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Accordingly, Vishay has only partially applied SFAS No. 157 as of January 1, 2008, and will be required to apply the additional provisions related to nonfinancial assets and liabilities as of January 1, 2009. The partial application of this standard did not have a material effect on the Companys financial position, results of operations, or liquidity, and the adoption of the remaining aspects which were deferred by FSP No. 157-2 is not expected to have a material effect on the Companys financial position, results of operations, or liquidity.

The Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The adoption of this standard did not have a material effect on the Companys financial position, results of operations, or liquidity.

In December 2007, the FASB issued SFAS No. 141-R, *Business Combinations*. While retaining the fundamental requirements of SFAS No. 141, this new statement makes various modifications to the requirements of SFAS No. 141 in regards to the accounting for contingent consideration, preacquisition contingencies, purchased in-process research and development, acquisition-related transaction costs, acquisition-related restructuring costs, and changes in tax valuation allowances and tax uncertainty accruals. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is presently evaluating the impact of adopting this standard.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is presently evaluating the impact of adopting this standard.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities.* This statement will require enhanced disclosures about an entity's derivative and hedging activities, and therefore improves the transparency of financial reporting. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application encouraged. The adoption of this standard is not expected to have a material effect on the Company's financial position, results of operations, or liquidity.

In May 2008, the FASB staff issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (including partial cash settlement).* The guidance included in the new staff position will significantly impact the accounting for convertible bonds that may be settled in cash. FSP APB 14-1 will require an issuer to separately account for the liability and equity components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 will require bifurcation of a component of the debt, classification of that component in equity, and then accretion of the resulting discount on the debt as part of the interest expense being reflected in the statement of operations. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 and earlier adoption is prohibited. The adoption of the FSP will require retrospective application to all periods presented. For Vishay, this would include the convertible subordinated notes due 2023, which were repurchased in August 2008. Given the retrospective application requirement, upon adoption, Vishay will report an increase in interest expense associated with these notes for the full year of 2007 and the first three quarters of 2008. The Company is presently evaluating the quantitative impact of adoption of the FSP.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Vishay Intertechnology, Inc. is an international manufacturer and supplier of discrete semiconductors and passive electronic components, including power MOSFETs, power conversion and motor control integrated circuits, transistors, diodes, optoelectronic components, resistors, capacitors, inductors, strain gages, load cells, force measurement sensors, displacement sensors, and photoelastic sensors. Semiconductors and electronic components manufactured by Vishay are used in virtually all types of electronic products, including those in the industrial, computer, automotive, consumer electronic products, telecommunications, military/aerospace, and medical industries.

Vishay operates in two segments, Semiconductors and Passive Components. Semiconductors segment products include transistors, diodes, rectifiers, certain types of integrated circuits, and optoelectronic products. Passive Components segment products include resistors, capacitors, and inductors. We include in the Passive Components segment our Measurements Group, which manufactures and markets strain gages, load cells, transducers, instruments, and weighing systems whose core components are resistors that are sensitive to various types of mechanical stress. While the passive components business had historically predominated at Vishay, following several acquisitions of semiconductor businesses, revenues from our Semiconductors and Passive Components segments were essentially split evenly from 2003 through the first quarter of 2007. On April 1, 2007, Vishay acquired the Power Control Systems ("PCS") business of International Rectifier Corporation, which has been included in the Semiconductors segment. Going forward, revenues from our Semiconductors segment are expected to represent slightly more than half of our total revenues.

Net revenues for the fiscal quarter ended June 28, 2008 were $774.4 million, compared to $715.9 million for the fiscal quarter ended June 30, 2007.

Vishay reported a loss from continuing operations in the second quarter of 2008 of $741.7 million, or $3.98 per share. The loss was substantially attributable to a noncash goodwill impairment charge of $800 million ($770 million, net of tax). The goodwill impairment charge has no impact on Vishay's liquidity, cash flows from operating activities, or debt covenants, and does not have any impact on future operations. The amount of the impairment charge is based on a preliminary analysis and may be adjusted in the third quarter.

The second quarter 2008 results also include a pretax charge for restructuring and severance costs of $8.9 million and $9.9 million of tax expense associated with the repatriation of cash from certain non-U.S. subsidiaries.

On an after tax basis, these items and the goodwill impairment charge had a negative $4.21 per share effect on income (loss) from continuing operations.

On August 1, 2008, Vishay repurchased substantially all of its convertible subordinated notes (pursuant to the option of the holders) for the principal amount of $498.1 million plus accrued interest. In order to meet this obligation, Vishay repatriated approximately $250 million of cash from non-U.S. subsidiaries. This repatriation of cash resulted in net tax expense of approximately $9.9 million, after the utilization of net operating losses and tax credits.

Income from continuing operations for the fiscal quarter ended June 30, 2007 was $42.0 million, or $0.22 per diluted share. Income from continuing operations for the fiscal quarter ended June 30, 2007 was impacted by pretax charges for restructuring and severance costs of $1.2 million and related asset write-downs of $2.7 million. These items and their tax-related consequences, plus additional tax expense for changes in uncertain tax positions of $3.4 million, had a negative $0.04 per share effect on income from continuing operations.

Net revenues for the six fiscal months ended June 28, 2008 were $1,507.7 million, compared to $1,374.1 million for the six fiscal months ended June 30, 2007. The loss from continuing operations for the six fiscal months ended June 28, 2008 was $724.1 million or $3.89 per share, compared to income from continuing operations of $92.0 million or $0.48 per diluted share for the six fiscal months ended June 30, 2007.

The loss from continuing operations for the six fiscal months ended June 28, 2008 was impacted by pretax charges for goodwill impairment of $800 million, restructuring and severance costs of $27.1 million, related asset write-downs of $4.2 million, and $9.9 million of tax expense associated with the repatriation of cash from certain non-U.S. subsidiaries. Including the tax effects of the pretax charges, these items had a negative $4.30 per share effect on earnings (loss) from continuing operations.

Income from continuing operations for the six fiscal months ended June 30, 2007 was impacted by pretax charges for restructuring and severance costs of $3.3 million and related asset write-downs of $2.7 million. These items and their tax-related consequences, plus additional tax expense for changes in uncertain tax positions of $3.4 million, had a negative $0.04 per share effect on income from continuing operations.

On April 7, 2008, Vishay sold the automotive modules and subsystems business unit (ASBU) acquired on April 1, 2007 as part of the acquisition of the PCS business of International Rectifier. The operations of ASBU have been classified as discontinued operations. Including the loss from discontinued operations, the net loss for the fiscal quarter and six fiscal months ended June 28, 2008 was $741.7 million and $766.3 million, respectively, compared to net earnings of $40.7 million and $90.7 million, respectively, for the comparable prior year periods.

Despite some ongoing concerns for the macro economy, Vishay continues to operate in a reasonably good economic environment. The recent weakness of the U.S. dollar continues to burden our operating results.

Financial Metrics

We utilize several financial measures and metrics to evaluate the performance and assess the future direction of our business. These key financial measures and metrics include sales, gross profit margin, end-of-period backlog, and the book-to-bill ratio. We also monitor changes in inventory turnover and average selling prices (ASP).

Gross profit margin is computed as gross profit as a percentage of sales. Gross profit is generally net revenues less costs of products sold, but also deducts certain other period costs, particularly losses on purchase commitments and inventory write-downs. Losses on purchase commitments and inventory write-downs have the impact of reducing gross profit margin in the period of the charge, but result in improved gross profit margins in subsequent periods by reducing costs of products sold as inventory is used. Gross profit margin is clearly a function of net revenues, but also reflects our ability to contain costs.

End-of-period backlog is one indicator of future sales. We include in our backlog only open orders that have been released by the customer for shipment in the next twelve months. If demand falls below customers forecasts, or if customers do not control their inventory effectively, they may cancel or reschedule the shipments that are included in our backlog, in many instances without the payment of any penalty. Therefore, the backlog is not necessarily indicative of the results to be expected for future periods.

Another important indicator of demand in our industry is the book-to-bill ratio, which is the ratio of the amount of product ordered during a period as compared with the product that we ship during that period. A book-to-bill ratio that is greater than one indicates that our backlog is building and that we are likely to see increasing revenues in future periods. Conversely, a book-to-bill ratio that is less than one is an indicator of declining demand and may foretell declining sales.

We focus on our inventory turnover as a measure of how well we are managing our inventory. We define inventory turnover for a financial reporting period as our costs of products sold for the four quarters ending on the last day of the reporting period divided by our average inventory (computed using each quarter-end balance) for this same period. The inventory balance used for computation of this ratio includes tantalum inventories in excess of one year supply, which are classified as other assets in the consolidated balance sheet. See Note 14 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. A higher level of inventory turnover reflects more efficient use of our capital.

Pricing in our industry can be volatile. We analyze trends and changes in average selling prices to evaluate likely future pricing. The erosion of average selling prices of established products is typical of the industry. However, we attempt to offset this deterioration with on-going cost reduction activities and new product introductions, as newer products typically yield larger gross margins.

The quarter-to-quarter trends in these financial metrics can also be an important indicator of the likely direction of our business. The following table shows net revenues, gross profit margin, end-of-period backlog, book-to-bill ratio, inventory turnover, and changes in ASP for our business as a whole during the five quarters beginning with the second quarter of 2007 through the second quarter of 2008 *(dollars in thousands)*:

	2nd Quarter 2007	**3rd Quarter 2007**	**4th Quarter 2007**	**1st Quarter 2008**	**2nd Quarter 2008**
Net revenues	$ 715,861	$ 729,616	$ 729,597	$ 733,313	$ 774,364
Gross profit margin	24.9%	24.0%	22.9%	23.5%	23.2%
End-of-period backlog	$ 677,300	$ 678,300	$ 646,700	$ 696,700	$ 695,900
Book-to-bill ratio	1.00	0.98	0.96	1.04	1.00
Inventory turnover	3.40	3.62	3.76	3.74	3.89
Change in ASP vs. prior quarter	-0.6%	-1.3%	-1.2%	-0.4%	-0.9%

See Financial Metrics by Segment below for net revenues, book-to-bill ratio, and gross profit margin broken out by segment.

Our revenues for the second quarter of 2008 exceeded our expectations, partially due to the translation of non-U.S. sales into U.S. dollars, but gross margins were negatively impacted by exchange rates and higher metals prices. The book-to-bill ratio decreased to 1.00 from 1.04 during the first quarter of 2008. Orders were particularly strong in Asia, and weaker in the United States and Europe. For the second quarter of 2008, the book-to-bill ratios for distribution customers and original equipment manufacturers (OEM) were 1.01 and 1.00, respectively, versus ratios of 1.05 and 1.04, respectively, during the first quarter of 2008. We expect revenues between $750 million and $770 million for the third quarter of 2008, with flat gross margins.

We have continued to see relatively modest pricing pressure in 2008, continuing the trend experienced in 2006 and 2007, although we expect increasing pricing pressure for the remainder of the year.

Financial Metrics by Segment

The following table shows net revenues, book-to-bill ratio, and gross profit margin broken out by segment for the five quarters beginning with the second quarter of 2007 through the second quarter of 2008 *(dollars in thousands):*

	2nd Quarter 2007	3rd Quarter 2007	4th Quarter 2007	1st Quarter 2008	2nd Quarter 2008
Semiconductors					
Net revenues	$ 379,687	$ 400,967	$ 386,013	$ 387,780	$ 407,443
Book-to-bill ratio	1.01	0.95	0.94	1.03	1.01
Gross profit margin	24.1%	23.3%	22.5%	22.9%	22.5%
Passive Components					
Net revenues	$ 336,174	$ 328,649	$ 343,584	$ 345,533	$ 366,921
Book-to-bill ratio	1.00	1.02	0.99	1.05	0.99
Gross profit margin	25.7%	24.9%	23.3%	24.3%	24.1%

Acquisition and Divestiture Activity

As part of our growth strategy, we seek to expand through the acquisition of other manufacturers of electronic components that have established positions in major markets, reputations for product quality and reliability, and product lines with which we have substantial marketing and technical expertise. This includes exploring opportunities to acquire smaller targets to gain market share, effectively penetrate different geographic markets, enhance new product development, round out our product lines, or grow our high margin niche market businesses. Also as part of this growth strategy, we seek to explore opportunities with privately held developers of electronic components, whether through acquisition, investment in non-controlling interests, or strategic alliances.

On April 7, 2008, Vishay sold the automotive modules and subsystems business unit (ASBU) it had acquired on April 1, 2007 as part of the acquisition of the PCS business of International Rectifier. During the first quarter of 2008, we recorded an impairment charge of $32.3 million to reduce the carrying value of the net assets of ASBU to the selling price.

Vishay has notified International Rectifier of damage claims concerning forecasts provided to Vishay regarding ASBU in advance of the PCS business acquisition that Vishay believes International Rectifier knew to be unsupportable. Vishay has also notified International Rectifier of certain other claims that it has regarding the sale of the PCS business to Vishay. International Rectifier has stated that it intends to defend its rights and position in these matters.

Subsequent to the end of the fiscal second quarter, Vishay acquired its partners interest in a joint venture in India for approximately $9.6 million. In July 2008, Vishay acquired Powertron GmbH, a manufacturer of foil resistors, for approximately $15 million, including the repayment of certain debt of Powertron.

Cost Management

We place a strong emphasis on reducing our costs. Since 2001, we have been implementing aggressive cost reduction programs to enhance our competitiveness, particularly in light of the erosion of average selling prices of established products that is typical of the industry.

One way we have reduced costs is by moving production to the extent possible from high-labor-cost markets, such as the United States and Western Europe, to lower-labor-cost markets, such as the Czech Republic, Israel, India, Malaysia, Mexico, the People□s Republic of China, and the Philippines. The percentage of our total headcount in lower-labor-cost countries is a measure of the extent to which we are successful in implementing this program. This percentage was 75.5% at the end of the second quarter of 2008, compared to 74.0% at the end of 2007, 74.2% at the end of 2006, and 57% when this program began in 2001. Our long-term target is to have between 75% and 80% of our headcount in lower-labor-cost countries.

These production transfers and other long-term cost cutting measures require us to initially incur significant severance and other exit costs and to record losses on excess buildings and equipment. We anticipate that we will realize the benefits of our restructuring through lower labor costs and other operating expenses in future periods. Since 2001, we recorded over $225 million of restructuring and severance costs and recorded related asset write-downs of over $80 million in order to reduce our cost structure going forward. We have realized, and expect to continue to realize, annual net cost savings associated with these restructuring activities.

Restructuring and severance costs, as presented on the consolidated condensed statement of operations, are separate from plant closure, employee termination and similar integration costs we incur in connection with our acquisition activities. These plant closure and employee termination costs subsequent to acquisitions are also integral to our cost reduction program. These amounts, which were not significant in recent years, are included in the costs of our acquisitions and do not affect earnings or losses on our statement of operations.

We evaluate potential restructuring projects based on an expected payback period. The payback period represents the number of years of annual cost savings necessary to recover the initial cash outlay for severance and other exit costs. In general, a restructuring project must have a payback of less than 3 years to be considered beneficial. On average, our restructuring projects have a payback of between 1 and 1.5 years.

During 2005 and the first quarter of 2006, we completed a broad-based fixed cost reduction program. In April 2005, we began evaluating additional restructuring initiatives to improve the results of underperforming divisions. Annual pretax savings resulting from restructuring projects initiated under these programs were expected to be approximately $50 million, of which approximately 70% of the savings would reduce costs of products sold, and approximately 30% of the savings would result in reduced selling, general, and administrative costs. Our actual costs savings from these programs in 2007 were approximately $40 million. Of this $40 million of annualized savings, approximately $20 million began to be realized in 2006, and $20 million began to be realized in 2007. We expect to realize an additional $10 million of savings from these programs in 2008. The expected and actual savings quantified above are net of additional costs incurred after production was transferred to lower-labor-cost regions.

We expect these restructuring programs to result in higher profitability through better gross margins and lower selling, general, and administrative expenses. However, these programs to improve our profitability also involve certain risks which could materially impact our future operating results, as further detailed in Item 1A, □Risk Factors,□ included in our Annual Report on Form 10-K for the year ended December 31, 2007.

In light of the current uncertain market conditions, we expanded our restructuring programs in 2008 to further reduce costs. Most of the costs related to our anticipated 2008 restructuring projects were recorded in the first quarter of 2008. These projects include the transfer of production of resistor products from Brazil to India and Czech Republic and the transfer of certain processes in Belgium and the United States to third party subcontractors. We also announced our intention to transfer production from the Netherlands and the United States to Israel later in 2008. While we expect some additional restructuring projects in 2008, we believe that we are in the final phase of the major restructuring efforts that have been on-going since 2001, and that the 2008 charges for severance and other exit costs will not exceed $32 million, based on current foreign currency exchange rates. We expect the restructuring projects anticipated for 2008 (including those projects initiated in the six fiscal months ended June 28, 2008) will generate approximately $25 million of annual cost savings, of which approximately 60% of the savings would reduce costs of products sold, and approximately 40% of the savings would result in reduced selling, general, and administrative costs. These savings are expected to begin to be realized in the third quarter of 2008.

While streamlining and reducing fixed overhead, we are exercising caution so that we will not negatively impact our customer service or our ability to further develop products and processes. Our cost management plans also include expansion of certain critical capacities, which we hope will reduce average materials and processing costs.

Foreign Currency Translation

We are exposed to foreign currency exchange rate risks, particularly due to transactions in currencies other than the functional currencies of certain subsidiaries. While we have in the past used forward exchange contracts to hedge a portion of our projected cash flows from these exposures, we generally have not done so in recent periods.

Statement of Financial Accounting Standards ("SFAS") No. 52 requires that entities identify the "functional currency" of each of their subsidiaries and measure all elements of the financial statements in that functional currency. A subsidary's functional currency is the currency of the primary economic environment in which it operates. In cases where a subsidiary is relatively self-contained within a particular country, the local currency is generally deemed to be the functional currency. However, a foreign subsidiary that is a direct and integral component or extension of the parent company's operations generally would have the parent company's currency as its functional currency. Vishay has both situations among its subsidiaries.

Foreign Subsidiaries which use the Local Currency as the Functional Currency

We finance our operations in Europe and certain locations in Asia in local currencies, and accordingly, these subsidiaries utilize the local currency as their functional currency. For those subsidiaries where the local currency is the functional currency, assets and liabilities in the consolidated balance sheets have been translated at the rate of exchange as of the balance sheet date. Translation adjustments do not impact the results of operations and are reported as a separate component of stockholders' equity. As the U.S. dollar has weakened over the past year, this translation of these subsidiaries' financial statements into U.S. dollars has resulted in a significant increase in the translation adjustment recorded in accumulated other comprehensive income on our balance sheet. See Note 7 to our consolidated condensed financial statements.

For those subsidiaries where the local currency is the functional currency, revenues and expenses are translated at the average exchange rate for the year. While the translation of revenues and expenses into U.S. dollars does not directly impact the statement of operations, the translation effectively increases the U.S. dollar equivalent of revenues generated and expenses incurred in those foreign currencies. As a result of the weakening of the U.S. dollar versus several foreign currencies, the translation of foreign currency revenues and expenses into U.S. dollars has significantly increased reported revenues and expenses during the six fiscal months ended June 28, 2008.

Foreign Subsidiaries which use the U.S. Dollar as the Functional Currency

Our operations in Israel and most significant locations in Asia are largely financed in U.S. dollars, and accordingly, these subsidiaries utilize the U.S. dollar as their functional currency. For those foreign subsidiaries where the U.S. dollar is the functional currency, all foreign currency financial statement amounts are remeasured into U.S. dollars. Exchange gains and losses arising from remeasurement of foreign currency-denominated monetary assets and liabilities are included in the results of operations. While these subsidiaries transact business in U.S. dollars, they may have significant costs, particularly payroll-related, which are incurred in the local currency. The cost of products sold and selling, general, and administrative expense for the six fiscal months ended June 28, 2008 have been significantly increased by local currency transactions of subsidiaries which use the U.S. dollar as their functional currency, particularly our subsidiaries in Israel.

Critical Accounting Policies and Estimates

We supplement our discussion of critical accounting policies and estimates, which appears in Item 7 of our Annual Report on Form 10-K, as follows.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the related net assets at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually. We perform our annual impairment test as of the first day of the fiscal fourth quarter. These impairment tests must be performed more frequently if there are triggering events.

SFAS No. 142, *Goodwill and Other Intangible Assets,* prescribes a two-step method for determining goodwill impairment. In the first step, we determine the fair value of the reporting unit using a comparable companies market multiple approach. The comparable companies utilized in our evaluation are the members of our peer group included in the presentation of our stock performance graph in Item 5 of our Annual Report on Form 10-K. We also utilized other valuation techniques, including a discounted cash flow analysis, to evaluate the reasonableness of the fair value determined using the market multiple approach.

If the net book value of the reporting unit exceeds the fair value, we would then perform the second step of the impairment test, which requires allocation of the reporting unit□s fair value to all of its assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value being allocated to goodwill. An impairment charge will be recognized only when the implied fair value of a reporting unit□s goodwill is less than its carrying amount.

In light of a sustained decline in market capitalization for Vishay and its peer group companies, and other factors, Vishay determined that an interim impairment test was necessary as of the end of the second fiscal quarter of 2008.

Passive Components segment goodwill is allocated to two reporting units for SFAS No. 142 evaluation purposes, namely Other Passives and Measurements Group. The Semiconductors segment represents a single reporting unit for SFAS No. 142 evaluation purposes.

After completing step one of the impairment test as of June 28, 2008, we determined that the estimated fair value of our Semiconductors and Other Passives reporting units was less than the net book value of those reporting units, requiring the completion of the second step of the impairment test. The estimated fair value of the Measurements Group reporting unit was greater than the net book value of that unit, and accordingly, no second step was required for the Measurement Group reporting unit.

To measure the amount of the impairment, SFAS No. 142 prescribes that we determine the implied fair value of goodwill in the same manner as if we had acquired those business units. Specifically, we must allocate the fair value of the reporting unit to all of the assets of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. The impairment loss is measured as the difference between the book value of the goodwill and the implied fair value of the goodwill computed in step two.

As permitted by SFAS No. 142, when an impairment indicator arises towards the end of an interim reporting period, a company may recognize its best estimate of that impairment loss. Based on a preliminary step two analysis prepared as of June 28, 2008, we determined that our best estimate of the impairment loss was $800 million, allocated $250 million to the goodwill of the Other Passives reporting unit and $550 million to the goodwill of the Semiconductors reporting unit.

The step two analysis prepared as of June 28, 2008 is preliminary and subject to completion in the third quarter of 2008. The completion of this analysis may result in the recognition of an additional impairment charge in the third quarter of 2008.

As a result of the analysis described above, our goodwill was recorded at fair value. In accordance with FASB Staff Position No. 157-2*, Effective Date of FASB Statement No. 157*, we have not applied SFAS No. 157 to the determination of the fair value of these assets (see Note 13 to our consolidated condensed financial statements included in Part I, Item 1). However, the provisions of SFAS No. 157 were applied to the determination of the fair value of financial assets and financial liabilities that were part of the SFAS No. 142 step two analysis.

The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which we compete; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization, and capital expenditures. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, completed technology, tradenames, in-process research and development, customer relationships, and certain property and equipment (valued at replacement costs).

Due to the inherent uncertainty involved in making these estimates, actual financial results could differ from those estimates. In addition, changes in expected financial results or other underlying assumptions would have a significant impact on either the fair value of the reporting unit or the amount of the goodwill impairment charge.

The goodwill impairment charge is noncash in nature and does not affect Vishays liquidity, cash flows from operating activities, or debt covenants, or have any impact on future operations.

Long-Lived Assets and Indefinite-Lived Intangible Assets

We assess the impairment of our long-lived assets, other than goodwill and tradenames, including property and equipment, long-term prepaid assets, and identifiable intangible assets subject to amortization, whenever events or changes in circumstances indicate the carrying value may not be recoverable. Factors we consider important, which could trigger an impairment review, include significant changes in the manner of our use of the asset, changes in historical or projected operating performance, and significant negative economic trends. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from such asset are separately identifiable and are less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset, primarily determined using discounted future cash flows.

Indefinite-lived intangible assets (which for Vishay are comprised entirely of tradenames) are not amortized, but similar to goodwill, are tested for impairment at least annually. These tests are performed more frequently if there are triggering events. The fair value of the tradenames is measured as the discounted cash flow savings realized by owning such tradenames and not having to pay a royalty for their use.

As a result of the decision to close our facility in Brazil, we completed a long-lived asset impairment analysis during the first quarter of 2008 and determined that various fixed assets and intangible assets were impaired. We recorded fixed asset write-downs of $3.4 million and intangible asset write-downs of $0.8 million.

Prior to completing the interim assessment of goodwill for impairment during the second quarter of 2008, we performed a recoverability test of certain long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* and certain indefinite-lived intangible assets in accordance with SFAS No. 142. As a result of those assessments, we concluded that there was no impairment of these assets as of June 28, 2008.

The evaluation of the recoverability of long-lived assets, and the determination of their fair value, requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the identification of the asset group at the lowest level of independent cash flows and the principal asset of the group; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization, and capital expenditures.

The evaluation of the fair value of indefinite-lived trademarks also requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the assumed market-royalty rate; the discount rate; terminal growth rates; and forecasts of revenue.

Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. In addition, changes in underlying assumptions would have a significant impact on the conclusion that an asset group's carrying value is recoverable, that an indefinite-lived asset is not impaired, or the determination of any impairment charge if it was determined that the asset values were indeed impaired.

Results of Operations

Statement of operations captions as a percentage of net revenues and the effective tax rates were as follows:

	Fiscal quarter ended		Six fiscal months ended	
	June 28, 2008	**June 30, 2007**	**June 28, 2008**	**June 30, 2007**
Cost of products sold	**76.8%**	75.1%	**76.6%**	74.3%
Gross profit	**23.2%**	24.9%	**23.4%**	25.7%
Selling, general & administrative expenses	**15.6%**	15.8%	**15.9%**	15.9%
Operating income (loss)	**-96.9%**	8.5%	**-47.7%**	9.3%
Income (loss) from continuing operations before taxes and minority interest	**-97.1%**	8.1%	**-48.2%**	9.0%
Income (loss) from continuing operations	**-95.8%**	5.9%	**-48.0%**	6.7%
Net earnings (loss)	**-95.8%**	5.7%	**-50.8%**	6.6%
Effective tax rate	**1.4%**	26.7%	**0.6%**	25.2%

Net Revenues

Net revenues were as follows *(dollars in thousands)*:

	Fiscal quarter ended		Six fiscal months ended	
	June 28, 2008	**June 30, 2007**	**June 28, 2008**	**June 30, 2007**
Net revenues	$ 774,364	$ 715,861	$ 1,507,677	$ 1,374,053
Change versus comparable prior year period	$ 58,503		$ 133,624	
Percentage change versus comparable prior year period	8.2%		9.7%	

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Changes in net revenues were attributable to the following:

	vs. Prior Year Quarter	**vs. Prior Year-to-Date**
Change attributable to:		
Increase in volume	6.2%	2.8%
Decrease in average selling prices	-3.1%	-3.0%
Foreign currency effects	5.3%	5.0%
Acquisitions	0.0%	4.9%
Other	-0.2%	0.0%
Net change	8.2%	9.7%

While the first half of 2008 showed some economic decline versus the prior year (evidenced in part by increasing pricing pressure), the markets for our products remain relatively healthy (evidenced by the increase in unit volumes). Sales of products for end-uses in the industrial, automotive, and military/aerospace industries remained strong, and we believe that the seasonal upturn of the Asian market for products for end-uses in the computer and mobile phone industries has begun. The overall increase in net revenues for the six fiscal months ended June 28, 2008 was principally driven by acquisitions. The weakening U.S. dollar also effectively increased the amount reported for revenues during the second quarter and six fiscal months ended June 28, 2008.

We deduct, from the sales that we record to distributors, allowances for future credits that we expect to provide for returns, scrapped product, and price adjustments under various programs made available to the distributors. We make deductions corresponding to particular sales in the period in which the sales are made, although the corresponding credits may not be issued until future periods. We estimate the deductions based on sales levels to distributors, inventory levels at the distributors, current and projected market trends and conditions, recent and historical activity under the relevant programs, changes in program policies, and open requests for credits. We recorded deductions from gross sales under our distributor incentive programs of $44 million and $36 million for the six fiscal months ended June 28, 2008 and June 30, 2007, respectively, or 2.8% and 2.6% of gross sales, respectively. Actual credits issued under the programs during the six fiscal months ended June 28, 2008 and June 30, 2007, were $43 million and $31 million, respectively. Increases and decreases in these incentives are largely attributable to the then-current business climate.

As a result of a concentrated effort to defend our intellectual property and generate additional licensing income, we began receiving royalties in the fourth quarter of 2004. We continue to seek to expand our royalty streams. Royalty revenues, included in net revenues on the consolidated condensed statements of operations, were approximately $1.9 million and $3.3 million for the six fiscal months ended June 28, 2008 and June 30, 2007, respectively.

Gross Profit and Margins

Gross profit margins for the fiscal quarter and six fiscal months ended June 28, 2008 were 23.2% and 23.4%, respectively, versus 24.9% and 25.7%, respectively, for the comparable prior year periods. These decreases in gross profit margin reflect lower average selling prices, negative foreign currency effects, higher precious metals and raw materials costs, and a less favorable product mix. When compared to the six fiscal months ended June 30, 2007, gross profit margin for the six fiscal months ended June 28, 2008 was also negatively impacted by the acquisition of the PCS business, which has lower gross profit margins than legacy Vishay products.

Segments

Analysis of revenues and gross profit margins for our Semiconductors and Passive Components segments is provided below.

<u>Semiconductors</u>

Net revenues for our Semiconductors segment increased sequentially versus the first quarter of 2008, partially driven by foreign currency effects. The Semiconductors segment includes the PCS business, acquired on April 1, 2007. Orders during the second quarter of 2008 remained relatively strong, particularly in light of current uncertainty in the macro economy, with a book-to-bill ratio of 1.01.

Net revenues of the Semiconductors segment were as follows *(dollars in thousands):*

	Fiscal quarter ended		Six fiscal months ended	
	June 28, 2008	**June 30, 2007**	**June 28, 2008**	**June 30, 2007**
Net revenues	$ 407,443	$ 379,687	$ 795,223	$ 702,620
Change versus comparable prior year period	$ 27,756		$ 92,603	
Percentage change versus comparable prior year period	7.3%		13.2%	

Changes in Semiconductors segment net revenues were attributable to the following:

	vs. Prior Year Quarter	vs. Prior Year-to-Date
Change attributable to:		
Increase in volume	8.8%	6.2%
Decrease in average selling prices	-4.7%	-4.7%
Foreign currency effects	4.0%	3.8%
Acquisitions	0.0%	8.5%
Other	-0.8%	-0.6%
Net change	7.3%	13.2%

Gross profit as a percentage of net revenues for the Semiconductors segment was as follows:

	Fiscal quarter ended		Six fiscal months ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Gross margin percentage	22.5%	24.1%	22.7%	24.7%

The decrease in gross margin percentages for the second quarter and six fiscal months ended June 28, 2008 versus the comparable prior year periods reflects accelerated average selling price decline and higher precious metals and raw materials costs. When compared to the six fiscal months ended June 30, 2007, gross profit margin for the six fiscal months ended June 28, 2008 was also negatively impacted by the acquisition of the PCS business, which has lower gross profit margins than legacy Vishay products.

Passive Components

Our Passive Components segment has shown steady improvement over the past three years, due to cost controls, better focus on specialty products, and a better pricing strategy. Although we expect some seasonal effects on gross margins in the third quarter of 2008, the profitability for this segment is expected to improve as a result of our on-going optimization and cost reduction efforts.

Net revenues of the Passive Components segment were as follows *(dollars in thousands):*

	Fiscal quarter ended		Six fiscal months ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net revenues	$ 366,921	$ 336,174	$ 712,454	$ 671,433
Change versus comparable prior year period	$ 30,747		$ 41,021	
Percentage change versus comparable prior year period	9.1%		6.1%	

Changes in Passive Components segment net revenues were attributable to the following:

	vs. Prior Year Quarter	vs. Prior Year-to-Date
Change attributable to:		
Increase (decrease) in volume	3.4%	-0.2%
Decrease in average selling prices	-1.1%	-1.1%
Foreign currency effects	6.8%	6.2%
Acquisitions	0.0%	1.2%

Other	0.0%	0.0%
Net change	9.1%	6.1%

Gross profit as a percentage of net revenues for the Passive Components segment was as follows:

	Fiscal quarter ended		Six fiscal months ended	
	June 28, 2008	**June 30, 2007**	**June 28, 2008**	**June 30, 2007**
Gross margin percentage	24.1%	26.7%	24.2%	26.7%

The decrease in gross margin percentage for the second quarter and six fiscal months ended June 28, 2008 versus the comparable prior year period largely reflects negative foreign currency effects, principally from changes in the Israeli shekel, Chinese renminbi, and Czech koruna, which more than offset cost reduction initiatives.

Selling, General, and Administrative Expenses

Selling, general, and administrative (SG&A) expenses in 2008 have increased versus 2007 largely due to increased sales. SG&A expenses for the second quarter and six fiscal months ended June 28, 2008 were 15.6% and 15.9%, respectively, of net revenues, versus 15.8% and 15.9% for the comparable prior year periods. Amortization of intangible assets, included in SG&A expenses, was $5.0 million and $9.6 million for the quarter and six fiscal months ended June 28, 2008, respectively, versus $4.8 million and $7.8 million, respectively, for the comparable prior year periods. This increase in amortization expense is principally due to the acquisition of the PCS business, and to a lesser extent, PM Group. The second quarter and six fiscal months ended June 28, 2008 also includes higher legal costs attributable to a patent infringement case. A weaker U.S. dollar and increases in salaries and wages versus the prior year also contributed to the increased level of SG&A costs. Also, SG&A expense for the six fiscal months ended June 30, 2007 is net of a gain on sale of assets of $1.5 million, compared to a gain on sale of assets of $0.7 million for the comparable current year period.

Restructuring and Severance Costs and Related Asset Write-Downs

Our restructuring programs have been on-going since 2001. Our restructuring activities have been designed to reduce both fixed and variable costs. These activities include the closing of facilities and the termination of employees. Because costs are recorded based upon estimates, actual expenditures for the restructuring activities may differ from the initially recorded costs. If the initial estimates are too low or too high, we could be required either to record additional expenses in future periods or to reverse previously recorded expenses. We anticipate that we will realize the benefits of our restructuring through lower labor costs and other operating expenses in future periods. We continued our restructuring activities during the six fiscal months ended June 28, 2008, recording restructuring and severance costs of $27.1 million, and related asset write-downs of $4.2 million. While we expect some additional restructuring projects in 2008, we believe that we are in the final phase of the major restructuring efforts that have been on-going since 2001, as further explained in Cost Management above, in Note 4 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007, and in Note 4 to our consolidated condensed financial statements included in Part I of this document.

Other Income (Expense)

Interest expense for the fiscal quarter and six fiscal months ended June 28, 2008 decreased by $1.3 million and $1.9 million versus the comparable prior year periods. These decreases are primarily due to lower interest rates on our variable rate debt.

The following tables analyze the components of the line Other on the consolidated condensed statement of operations *(in thousands):*

	Fiscal quarter ended		
	June 28, 2008	**June 30, 2007**	**Change**
Foreign exchange (loss) gain	**$ (1,807)**	$ 129	$ (1,936)
Interest income	**4,091**	3,864	227
Dividend income	**92**	220	(128)
Incentive from Chinese government	**800**	-	800
Other	**1,497**	135	1,362
	$ 4,673	$ 4,348	$ 325

	Six fiscal months ended		
	June 28, 2008	**June 30, 2007**	**Change**
Foreign exchange loss	**$ (6,587)**	$ (244)	$ (6,343)
Interest income	**8,216**	10,343	(2,127)
Dividend income	**92**	220	(128)
Incentive from Chinese government	**800**	-	800
Other	**1,954**	(406)	2,360
	$ 4,475	$ 9,913	$ (5,438)

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Income Taxes

The effective tax rate, based on income from continuing operations before income taxes and minority interest, for the quarter and six fiscal months ended June 28, 2008 was 1.4% and 0.6%, respectively, compared to 26.7% and 25.2%. respectively, for the comparable prior year periods.

The relatively low effective tax rates for the quarter and six fiscal months ended June 28, 2008 are principally attributable to the goodwill impairment charge recorded in the second quarter. The vast majority of our goodwill is not deductible for income tax purposes. We recognized tax benefits of $30 million during the second quarter of 2008 associated with the goodwill impairment charge.

In order to meet the obligation to repurchase the convertible subordinated notes on August 1, 2008, we repatriated approximately $250 million of cash from non-U.S. subsidiaries. This repatriation of cash resulted in net tax expense of approximately $9.9 million, recorded in the second quarter of 2008, after the utilization of net operating losses and tax credits.

We operate in an international environment with significant operations in various locations outside the United States. Accordingly, the consolidated income tax rate is a composite rate reflecting our earnings and the applicable tax rates in the various locations where we operate. Part of our strategy is to achieve cost savings through the transfer and expansion of manufacturing operations to countries where we can take advantage of lower labor costs and available tax and other government-sponsored incentives. Accordingly, our effective tax rate is generally less than the U.S. statutory tax rate. Changes in the effective tax rate are largely attributable to changes in the mix of pretax income among our various taxing jurisdictions.

The effective tax rates reflect the fact that we could not recognize for accounting purposes the tax benefit of losses incurred in certain jurisdictions, although these losses are available to offset future taxable income. Under applicable accounting principles, we may not recognize deferred tax assets for loss carryforwards in jurisdictions where there is a recent history of cumulative losses, where there is no taxable income in the carryback period, where there is insufficient evidence of future earnings to overcome the loss history and where there is no other positive evidence, such as the likely reversal of taxable temporary differences, that would result in the utilization of loss carryforwards for tax purposes.

During the six fiscal months ended June 28, 2008, the liabilities for unrecognized tax benefits increased by a net $7.7 million, due principally to increases for tax positions taken during the period (approximately $7.0 million) and foreign currency effects (approximately $2.6 million), partially offset by a decrease due to the repatriation of cash (approximately $1.9 million).

During the second quarter of 2007, we recorded additional tax expense for changes in uncertain tax positions of $3.4 million related to tax positions taken in prior years.

Financial Condition, Liquidity, and Capital Resources

As more fully described in Note 6 to the consolidated condensed financial statements in Item 1, on August 1, 2008, Vishay repurchased substantially all of the convertible subordinated notes due 2023 for an aggregate purchase price of $498.1 million. The purchase price was paid in cash and funded from approximately $250 million of cash on-hand, $125 million of borrowings under the revolving credit facility, and $125 million from the term loan commitment.

The following table summarizes the components of net debt at December 31, 2007, June 28, 2008 actual, and June 28, 2008 pro forma (assuming the repurchase of the convertible subordinated notes had occurred on June 28, 2008):

	June 28, 2008 Pro Forma	June 28, 2008 Actual	December 31, 2007
Convertible subordinated notes, due 2023	$ 1,870	$ 500,000	$ 500,000
Exchangeable unsecured notes, due 2102	105,000	105,000	105,000
Credit facility - revolving debt	125,000	-	-
Credit facility - term loan	125,000	-	-
Other debt	2,309	2,309	3,583
Total debt	359,179	607,309	608,583
Cash	337,657	585,787	537,295
Net debt	$ 21,522	$ 21,522	$ 71,288

Measurements such as "net debt" do not have a uniform definition and are not recognized in accordance with generally accepted accounting principles ("GAAP"). Such measures should not be viewed as an alternative to GAAP measures of performance or liquidity. However, management believes that an analysis of net debt assists investors in understanding the impact of the transactions necessary to finance the repurchase of the convertible subordinated notes on August 1, 2008. This measure, as calculated by Vishay, may not be comparable to similarly titled measures used by other companies.

The purchase price for the notes is equal to their principal amount, and accordingly, we will not recognize any gain or loss on the repurchase of the Notes. However, as a consequence of the extinguishment of the notes prior to their stated maturity date of 2023, in the third quarter of 2008, we will be required to write-off approximately $14 million of unamortized debt issuance costs associated with the 2003 issuance of the notes.

The early extinguishment of the notes will have a negligible impact on future net interest expense, as both interest expense and interest income will decrease.

We repatriated approximately $250 million of cash from our foreign subsidiaries in order to meet the obligation to repurchase the convertible subordinated notes due 2023 pursuant to the option of the holders on August 1, 2008. Substantially all of the June 28, 2008 pro forma cash and cash equivalents balance was held by our non-U.S. subsidiaries. Although we utilized cash and profits generated by our foreign subsidiaries to fund the repurchase transaction, at the present time, we expect the remaining cash and profits generated by foreign subsidiaries will continue to be reinvested indefinitely.

Our financial condition as of June 28, 2008 continued to be strong, with a current ratio (current assets to current liabilities) of 2.2 to 1, as compared to 2.9 to 1 as of December 31, 2007. The change in this ratio is principally due to the reclassification of a portion of the 3-5/8% convertible notes settled in August 2008 to current liabilities. Our ratio of total debt to stockholders equity was 0.23 to 1 at June 28, 2008, as compared to 0.18 to 1 as of December 31, 2007. The change in this ratio is principally due to the reduction of equity subsequent to the noncash goodwill impairment charge recorded during the second quarter of 2008.

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Cash flows provided by continuing operating activities were $102.7 million for the six fiscal months ended June 28, 2008, as compared to cash flows provided by operations of $93.5 million for the comparable prior year period. This increase is principally due to smaller changes in net working capital during the six fiscal months ended June 28, 2008 versus the comparable prior year period.

Cash used by discontinued operating activities of $10.1 million for the six fiscal months ended June 28, 2008 primarily reflects receivables collected by Vishay and remitted to the purchaser of the ASBU business pursuant to the transaction agreement. Cash provided by discontinued investing activities reflects the proceeds of sale of the ASBU business, net of capital spending for information technology systems.

Cash paid for property and equipment for the six fiscal months ended June 28, 2008 was $57.8 million, as compared to $73.7 million for the fiscal quarter ended June 30, 2007. Our capital expenditures are projected to be approximately $170 million in 2008, principally to expand capacity in the Semiconductors businesses.

Cash paid for acquisitions for the six fiscal months ended June 28, 2008 represents $4.6 million held in escrow at June 28, 2008 for the purchase of our partners 51% interest in a joint venture. This transaction closed on June 30, 2008, in the fiscal third quarter, for a total purchase price of $9.6 million. Cash paid for acquisitions for the six fiscal months ended June 30, 2007 was $330.9 million, representing the acquisitions of the PCS business and PM Group, net of cash acquired. Proceeds from sale of businesses of $18.5 million include approximately $16.1 million from the sale of PM Groups electrical contracting business.

We maintain a credit facility, which provides a revolving commitment of up to $250 million through April 20, 2012. As more fully described in Note 6 to the consolidated condensed financial statements, we entered into an amendment to this credit facility to also provide a term loan commitment up to $125 million. This term loan commitment was drawn in July 2008 to fund the repurchase of the convertible subordinated notes. At June 28, 2008 and December 31, 2007, there were no amounts outstanding under the credit facility.

Interest on the credit facility is payable at prime or other variable interest rate options. We are required to pay facility commitment fees. The credit facility also restricts us from paying cash dividends and requires us to comply with other covenants, including the maintenance of specific financial ratios. We were in compliance with all covenants at June 28, 2008.

Borrowings under the credit facility are secured by pledges of stock in certain significant subsidiaries and certain guarantees by significant subsidiaries. The subsidiaries would be required to perform under the guarantees in the event that Vishay failed to make principal or interest payments under the credit facility. Certain of our subsidiaries are permitted to borrow under the credit facility. Any borrowings by these subsidiaries under the credit facility are guaranteed by Vishay.

As described above, we have utilized the credit facility, including the new term loan commitment, to repurchase the convertible subordinated notes in August 2008. The timing and location of scheduled payments have also required us to draw on our revolving credit facilities from time to time over the past year. While the timing and location of scheduled payments for certain liabilities may require us to draw additional amounts on our credit facility from time to time, for the next twelve months, management expects that cash on-hand and cash flows from operations will be sufficient to meet our normal operating requirements, to meet our obligations under restructuring and acquisition integration programs, and to fund our research and development and capital expenditure plans. Acquisition activity may require additional borrowing under our credit facility or may otherwise require us to incur additional debt.

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Contractual Commitments

Our Annual Report on Form 10-K includes a table of contractual commitments as of December 31, 2007. Material changes to these commitments which occurred in 2008 are described below.

Tower Purchase Commitments

We maintain long-term foundry agreements with subcontractors to ensure access to external front-end capacity for our semiconductor products. Our Siliconix division entered into an agreement in 2004 with Tower Semiconductor (the 2004 agreement), pursuant to which we were required to place orders valued at approximately $200 million for the purchase of semiconductor wafers to be manufactured in Towers Fab 1 facility over a seven to ten year period. During 2007, Siliconix was committed to purchase approximately $22 million of semiconductor wafers, but did not meet its commitments due to changing market demand for products manufactured using wafers supplied by Tower. At December 31, 2007, the remaining future purchase commitments under the 2004 agreement were approximately $160 million.

In March 2008, Siliconix and Tower entered into an amended and restated foundry agreement (the 2008 agreement). Pursuant to the 2008 agreement, Tower will continue to manufacture wafers covered by the 2004 agreement, but at lower quantities and at lower prices, through 2009. Tower will also begin manufacturing wafers for other product lines acquired as part of the PCS acquisition through 2012, pending a scheduled technology transfer. Siliconix must pay for any short-fall in the reduced minimum order quantities specified under the 2008 agreement through the payment of penalties equal to unavoidable fixed costs.

Management estimates its minimum purchase commitments under the 2008 agreement as follows *(in thousands)*:

2008	$ 20,400
2009	14,700
2010	8,400
2011	8,800
2012	8,800

Siliconix has granted Tower an option to produce additional wafers under this agreement, as needed by Siliconix, and accordingly, actual purchases from Tower may be greater than the commitments disclosed above.

These purchase commitments are for the manufacture of proprietary products using Siliconix-owned technology licensed to Tower by Siliconix, and accordingly, management can only estimate the market price of the wafers which are the subject of the 2008 agreement. Management believes that these commitments are at prices that are not in excess of current market prices.

Long-term Debt and Interest Payments on Long-term Debt

On August 1, 2008, Vishay repurchased substantially all of the convertible subordinated notes due 2023 for an aggregate purchase price of $498.1 million. The purchase price was paid in cash and funded from approximately $250 million of cash on-hand, $125 million of borrowings under the revolving credit facility, and $125 million from the term loan commitment.

Based on the pro forma debt positions at June 28, 2008 (assuming the repurchase of the convertible subordinated notes had occurred on June 28, 2008, see table under Financial Condition, Liquidity, and Capital Resources above), future maturities of long-term debt and related interest payments are estimated as follows *(in thousands)*:

	Debt	Interest
Remainder of 2008	$ 605	7,474
2009	25,338	13,917

2010	25,046	13,256
2011	75,000	12,595
2012	125,000	6,558
Thereafter	108,190	263,032

Commitments for interest payments on long-term debt are based on the stated maturity dates of each agreement, one of which bears a maturity date of 2102. Various factors could have a material effect on the amount of future interest payments. These factors include the facts that $105 million of our debt is exchangeable for common stock (although the exchange ratio is based on a stock price which is substantially higher than the current market price), and that the variable-rate debt included in the table above are based on the rate prevailing at June 28, 2008. Commitments for interest payments on long-term debt also include commitment fess under our revolving credit facility, which expires in April 2012.

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Recent Accounting Pronouncements

As more fully described in Note 13 to our consolidated condensed financial statements, several new accounting pronouncements became effective in 2008 or will become effective in future periods.

The adoption of SFAS No. 141-R, *Business Combinations*, effective January 1, 2009, will change the manner in which Vishay accounts for acquisitions. While this new standard will impact all companies, certain aspects of the new standard will have a particular impact on Vishay.

A primary tenet of our business strategy is the expansion within the electronic components industry through the acquisition of other manufacturers of electronic components that have established positions in major markets, reputations for product quality and reliability, and product lines with which we have substantial marketing and technical expertise. Our acquisition strategy relies upon reducing selling, general, and administrative expenses through the integration or elimination of redundant sales offices and administrative functions at acquired companies, and achieving significant production cost savings through the transfer and expansion of manufacturing operations to countries where we can benefit from lower labor costs and available tax and other government-sponsored incentives.

Under present accounting standards, plant closure and employee termination costs that we incur in connection with our acquisition activities are included in the costs of our acquisitions and do not affect earnings or losses on our statement of operations. SFAS No. 141-R will require such costs to be recorded as expenses in our statement of operations, as such expenses are incurred.

The adoption of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (including partial cash settlement)* on January 1, 2009 will require retroactive restatement of interest expense for the years ended December 31, 2007 and 2008. For Vishay, this would represent imputed interest expense related to the convertible subordinated notes due 2023, which were repurchased in August 2008. Vishay will report an increase in interest expense associated with these notes for the full year of 2007 and the first three quarters of 2008. We are presently evaluating the quantitative impact of adoption of the FSP.

Except as described above, the adoption of the new standards described in Note 13 to our consolidated condensed financial statements is not expected to have a material effect on our financial position, results of operations, or liquidity.

Safe Harbor Statement

From time to time, information provided by us, including but not limited to statements in this report, or other statements made by or on our behalf, may contain forward-looking information within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve a number of risks, uncertainties, and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from those anticipated.

Such statements are based on current expectations only, and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. Among the factors that could cause actual results to materially differ include: general business and economic conditions, particularly in the markets that we serve; difficulties in integrating acquired companies, the inability to realize anticipated synergies and expansion possibilities, and other unanticipated conditions adversely affecting the operation of these companies; difficulties in new product development; changes in competition and technology in the markets that we serve and the mix of our products required to address these changes; an inability to attract and retain highly qualified personnel, particularly in respect of our acquired businesses; changes in foreign currency exchange rates; difficulties in implementing our cost reduction strategies such as labor unrest or legal challenges to our lay-off or termination plans, underutilization of production facilities in lower-labor-cost countries, operation of redundant facilities due to difficulties in transferring production to lower-labor-cost countries; and other factors affecting our operations, markets, products, services, and prices that are set forth in our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission (the SEC). We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to changes in interest rates as a result of our borrowing activities and our cash balances.

We had no interest rate exposure to our convertible subordinated notes, as the interest payable on these notes was fixed. On August 1, 2008, we repurchased substantially all of the convertible subordinated notes for an aggregate purchase price of $498.1 million. We utilized approximately $250 million of cash on-hand, $125 million borrowed under the revolving credit commitment under our credit facility, and $125 million from a new term loan under the credit facility to fund the purchase price.

We are exposed to changes in interest rates on our credit facility. At June 28, 2008 and December 31, 2007, there were no amounts outstanding under the credit facility. Cash utilized under the revolving credit facility for the repurchase of the convertible subordinated notes bears interest at LIBOR plus 1.00%, and cash utilized under the term loan commitment for the repurchase of the convertible subordinated notes bears interest at LIBOR plus 2.50%.

At June 28, 2008 and December 31, 2007, we had cash totaling $585.8 million and $537.3 million, respectively. Our cash balance was reduced by approximately $250 million by the repurchase of the convertible subordinated notes.

We are also exposed to interest rate changes with respect to our variable rate exchangeable notes, which bear interest at LIBOR, reset quarterly. The aggregate principal amount of the exchangeable notes is $105 million.

Based on the pro forma debt and cash positions at June 28, 2008 (see table in Item 2, Managements Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity, and Capital Resources), we would expect a 50 basis point increase or decrease in interest rates to increase or decrease our annualized net earnings by approximately $0.6 million.

See Note 6 to our consolidated financial statements, included in our annual report on Form 10-K, and Note 6 to our consolidated condensed financial statements included in Part I of this quarterly report on Form 10-Q for additional information about our long-term debt.

Except as described above, there have been no material changes in the market risks previously disclosed in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on February 27, 2008.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are: (1) recorded, processed, summarized, and reported within the time periods specified in the SECs rules and forms; and (2) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on February 27, 2008.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on May 28, 2008, at which stockholders voted on the election of four directors to hold office until 2011, the ratification of the appointment of Ernst & Young LLP as the Companys independent registered public accounting firm for the year ending December 31, 2008, the amendment and restatement of the 2007 Stock Option Program, and amendments to our charter documents to limit the maximum size of the Board of Directors to fifteen and to grant the Board of Directors the exclusive authority to establish the size of the Board of Directors.

Each share of common stock is entitled to one vote, and each share of Class B common stock is entitled to ten votes.

The results of the votes of stockholders on each matter set forth at the Annual Meeting are as follows:

Election of Directors

	For	Withheld
Eliyahu Hurvitz		
Common stock	137,816,218	11,382,306
Class B common stock	14,281,197	-
Total voting power	280,628,188	11,382,306
Dr. Abraham Ludomirski		
Common stock	138,618,404	10,580,119
Class B common stock	14,281,197	-
Total voting power	281,430,374	10,580,119
Wayne M. Rogers		
Common stock	138,839,306	10,359,217
Class B common stock	14,281,197	-
Total voting power	281,651,276	10,359,217
Mark I. Solomon		
Common stock	137,911,020	11,287,504
Class B common stock	14,281,197	-
Total voting power	280,722,990	11,287,504

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Ratification of Independent Registered Public Accounting Firm

	For	Against	Abstain
Common stock	145,409,823	3,062,141	726,559
Class B common stock	14,281,197	-	-
Total voting power	288,221,793	3,062,141	726,559

Amendment and Restatement of 2007 Stock Option Program

	For	Against	Abstain	Broker Non-Votes
Common stock	113,627,669	11,087,769	1,900,522	22,852,563
Class B common stock	14,280,837	-	-	360
Total voting power	256,436,039	11,087,769	1,900,522	22,856,163

Amendments to our Charter Documents to Limit the Maximum Size of the Board

	For	Against	Abstain	Broker Non-Votes
Common stock	111,998,484	13,843,468	774,009	22,582,562
Class B common stock	14,262,816	18,021	-	360
Total voting power	254,626,644	14,023,678	774,009	22,586,162

Item 5. Other Information

Not applicable.

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation of Vishay Intertechnology, Inc. dated May 28, 2008. Incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed May 28, 2008.
3.2	Amended and Restated Bylaws dated May 28, 2008. Incorporated by reference to Exhibit 3.2 to our current report on Form 8-K filed May 28, 2008.
10.1	Vishay Intertechnology, Inc. 2007 Stock Incentive Program (as amended and restated effective April 2008). Incorporated by reference to Annex A to our definitive proxy statement, dated April 16, 2008, for our 2008 Annual Meeting of Stockholders.
10.2	Vishay Intertechnology, Inc. Fourth Amended and Restated Credit Agreement. Incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed June 25, 2008.
31.1	Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Dr. Gerald Paul, Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Richard N. Grubb, Chief Financial Officer.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Dr. Gerald Paul, Chief Executive Officer.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Richard N. Grubb, Chief Financial Officer.

SIGNATURES

Pursuant to 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.

VISHAY INTERTECHNOLOGY, INC.

/s/ Richard N. Grubb
Richard N. Grubb, Executive Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 5, 2008
