Measurement Specialties Inc
Form 10-Q
November 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 SEPTEMBER 30, 2008

OR

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

COMMISSION FILE NUMBER: 1-11906

MEASUREMENT SPECIALTIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

New Jersey	**22-2378738**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**

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

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

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

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

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 14,473,938 shares of common stock, no par value per share, as of October 31, 2008.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
FORM 10-Q
TABLE OF CONTENTS
SEPTEMBER 30, 2008

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(Amounts in thousands, except per share amounts)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Six Months Ended September 30, 2008	Six Months Ended September 30, 2007
Net sales	**$ 58,888**	**$ 56,462**	**$ 117,886**	**$ 109,613**
Cost of goods sold	33,851	33,101	67,608	63,368
Gross profit	25,037	23,361	50,278	46,245
Total operating expenses	18,510	16,086	38,098	32,677
Operating income	6,527	7,275	12,180	13,568
Interest expense, net	806	1,207	1,512	2,393
Foreign currency exchange loss	396	405	332	442
Other expense (income)	68	(134)	(353)	(33)
Income from continuing operations before minority interest and income taxes	5,257	5,797	10,689	10,766
Minority interest, net of income taxes	93	78	170	161
Income tax expense from continuing operations	1,446	2,370	2,945	3,543
Income from continuing operations	**3,718**	**3,349**	**7,574**	**7,062**
Discontinued operations:				
Income from discontinued operations before income taxes	-	20	-	56
Income tax expense from discontinued operations	-	-	-	6
Income from discontinued operations	-	20	-	50
Net income	**$ 3,718**	**$ 3,369**	**$ 7,574**	**$ 7,112**
Net income per common share - Basic:				
Income from continuing operations	$ 0.26	$ 0.24	$ 0.52	$ 0.50
Income from discontinued operations	-	-	-	-
Net income per common share - Basic	$ 0.26	$ 0.24	$ 0.52	$ 0.50
Net income per common share - Diluted:				
Income from continuing operations	$ 0.26	$ 0.23	$ 0.52	$ 0.49
Income from discontinued operations	-	-	-	-
Net income per common share - Diluted	$ 0.26	$ 0.23	$ 0.52	$ 0.49
Weighted average shares outstanding - Basic	14,454	14,318	14,453	14,303
Weighted average shares outstanding - Diluted	14,530	14,502	14,532	14,481

See Accompanying Notes to Condensed Consolidated Financial Statements.

3

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

(Amounts in thousands)	**September 30, 2008**	**March 31, 2008**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,714	$ 21,565
Accounts receivable, trade, net of allowance for doubtful accounts of $893 and $696, respectively	35,583	39,919
Inventories, net	44,719	40,286
Deferred income taxes, net	4,474	4,299
Prepaid expenses and other current assets	4,201	3,760
Other receivables	1,136	1,270
Due from joint venture partner	1,431	2,155
Current portion of promissory note receivable	271	809
Total current assets	114,529	114,063
Property, plant and equipment, net	43,389	40,715
Goodwill	94,248	95,710
Acquired intangible assets, net	27,337	31,766
Deferred income taxes, net	2,084	1,769
Other assets	1,517	1,592
Total Assets	**$ 283,104**	**$ 285,615**

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Amounts in thousands, except share amounts)	September 30, 2008	March 31, 2008
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of promissory notes payable	$ 2,279	$ 2,511
Current portion of long-term debt	2,612	3,157
Current portion of capital lease obligation	730	822
Accounts payable	21,897	23,523
Accrued expenses	3,840	3,634
Accrued compensation	6,226	7,067
Income taxes payable	2,483	751
Other current liabilities	3,505	3,510
Total current liabilities	43,572	44,975
Revolver	54,214	58,206
Promissory notes payable, net of current portion	6,836	7,535
Long-term debt, net of current portion	14,011	15,309
Capital lease obligation, net of current portion	346	781
Other liabilities	1,229	1,067
Total liabilities	120,208	127,873
Minority interest	2,119	1,953
Shareholders' equity:		
Serial preferred stock; 221,756 shares authorized; none outstanding	-	-
Common stock, no par; 25,000,000 shares authorized; 14,471,118 and 14,440,848 shares issued and outstanding, respectively	-	-
Additional paid-in capital	80,420	78,720
Retained earnings	69,513	61,939
Accumulated other comprehensive income	10,844	15,130
Total shareholders' equity	160,777	155,789
Total liabilities, minority interest and shareholders' equity	**$ 283,104**	**$ 285,615**

See Accompanying Notes to Condensed Consolidated Financial Statements.

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

(Dollars in thousands)	Shares of Common Stock	Additional paid-in capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total	Comprehensive Income
Balance, March 31, 2007	14,280,364	$ 73,399	$ 45,497	$ 1,741	$ 120,637	
Comprehensive income:						
Net income		-	7,112	-	7,112	$ 7,112
Currency translation adjustment		-	-	3,717	3,717	3,717
Comprehensive income		-	-	-	-	$ 10,829
Non-cash equity based compensation (SFAS 123R)		1,633	-	-	1,633	
Amounts from exercise of stock options	95,182	1,018	-	-	1,018	
Balance, September 30, 2007	14,375,546	$ 76,050	$ 52,609	$ 5,458	$ 134,117	
Balance, March 31, 2008	14,440,848	$ 78,720	$ 61,939	$ 15,130	$ 155,789	
Comprehensive income:						
Net income		-	7,574	-	7,574	$ 7,574
Currency translation adjustment		-	-	(4,286)	(4,286)	(4,286)
Comprehensive income		-	-	-	-	$ 3,288
Non-cash equity based compensation (SFAS 123R)		1,524	-	-	1,524	
Amounts from exercise of stock options	30,270	176	-	-	176	
Balance, September 30, 2008	14,471,118	$ 80,420	$ 69,513	$ 10,844	$ 160,777	

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Amounts in thousands)	**Six months ended September 30, 2008**	**2007**
Cash flows from operating activities:		
Net income	$ 7,574	$ 7,112
Less: Income from discontinued operations - Consumer	-	50
Income from continuing operations	**7,574**	**7,062**
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Depreciation and amortization	6,577	4,447
Loss on sale of assets	107	44
Provision for doubtful accounts	203	106
Provision for inventory reserve	231	479
Provision for warranty	120	355
Minority interest	170	161
Non-cash equity based compensation (SFAS 123R)	1,524	1,633
Deferred income taxes	(430)	673
Net change in operating assets and liabilities:		
Accounts receivable, trade	3,786	(807)
Inventories	(4,915)	(1,737)
Prepaid expenses, other current assets and other receivables	(500)	(504)
Other assets	834	(183)
Accounts payable	(1,018)	2,472
Accrued expenses, accrued compensation, other current and other liabilities	(386)	(1,317)
Accrued litigation settlement expenses	-	(1,275)
Income taxes payable	1,697	297
Net cash provided by operating activities from continuing operations	**15,574**	**11,906**
Cash flows used in investing activities from continuing operations:		
Purchases of property and equipment	(7,966)	(4,934)
Proceeds from sale of assets	4	25
Net cash used in investing activities from continuing operations	**(7,962)**	**(4,909)**
Cash flows from financing activities from continuing operations:		
Repayments of long-term debt	(1,671)	(1,340)
Borrowings of short-term debt, revolver and notes payable	9	4,159
Repayments of short-term debt, revolver, captial leases and notes payable	(4,416)	(10,526)
Minority interest payments	-	(243)
Proceeds from exercise of options	176	1,018
Net cash used in financing activities from continuing operations	**(5,902)**	**(6,932)**
Net cash provided by operating activities of discontinued operations	-	126
Net cash provided by investing activities of discontinued operations	540	1,492
Net cash provided by discontinued operations	**540**	**1,618**
Net change in cash and cash equivalents	2,250	1,683

Effect of exchange rate changes on cash		(1,101)		281
Cash, beginning of year		21,565		7,709
Cash, end of period	$	22,714	$	9,673
Supplemental Cash Flow Information:				
Cash paid during the period for:				
Interest	$	1,279	$	2,344
Income taxes		1,213		2,390

See Accompanying Notes to Condensed Consolidated Financial Statements.

7

MEASUREMENT SPECIALTIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Interim Financial Statements: The information presented as of September 30, 2008 and for the three and six month periods ended September 30, 2008 and 2007 are unaudited, and reflect all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for the fair presentation of the Company's financial position as of September 30, 2008, the results of its operations for the three and six month periods ended September 30, 2008 and 2007, and cash flows for the six month periods ended September 30, 2008 and 2007. The Company's March 31, 2008 balance sheet information was derived from the audited consolidated financial statements for the year ended March 31, 2008, which are included as part of the Company's Annual Report on Form 10-K.

The condensed consolidated financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2008, which are included as part of the Company's Annual Report on Form 10-K.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46R ("FIN 46R") (revised December 2003), *Consolidation of Variable Interest Entities*, the Company consolidates its one variable interest entity ("VIE") for which the Company is the primary beneficiary. With the purchase of YSI Temperature, the Company acquired a 50 percent ownership interest in Nikisso-THERM ("NT"), a joint venture in Japan. This joint venture is included in the condensed consolidated financial statements of the Company at September 30, 2008 and 2007 and

March 31, 2008. At September 30, 2008 and March 31, 2008, NT had amounts due from Nikisso, NT joint venture partner, of $1,431 and $2,155, respectively.

The Company executed a restructuring of BetaTHERM Ireland Limited ("BIL") during the quarter ended September 30, 2008, whereby the number of subsidiaries of BIL entities was consolidated from nine to two operating entities. This reorganization was effected to facilitate more efficient statutory reporting.

Use of Estimates: The preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, acquired intangibles and goodwill, valuation allowances for receivables, inventories and deferred income tax assets, warranties, valuation of derivative financial instruments and stock-based compensation. Actual results could differ from those estimates. There have been no significant changes to the Application of Critical Accounting Policies disclosure contained in the Company's Annual Report on Form 10-K for the year ended March 31, 2008.

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentation with the separate presentation of foreign currency exchange gains and losses.

Recently Adopted Accounting Pronouncements: In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"). This new standard provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

On February 12, 2008, the FASB issued FASB Staff Positions that delayed for one year the applicability of SFAS No. 157's fair value measurement requirements to certain nonfinancial assets and liabilities, excluded most lease accounting fair-value measurements from SFAS No. 157's scope, and deferred the effective date of the AICPA Statement of Position that defines "investment company" for purposes of applying the industry-specific guidance in an AICPA guide.

The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, except for that portion of provisions deferred for one year pursuant to the FASB Staff Positions. Effective April 1, 2008, the Company adopted the applicable provisions of SFAS No. 157, except for that portion of the provisions deferred for one year. The implementation of the adopted provisions of SFAS No. 157 did not have a material impact on the Company's financial position or results of operations. Management is currently evaluating the effect that the adoption of the deferred portions of provision of SFAS No. 157 will have on the Company's financial statements.

Recently Issued Accounting Pronouncements: On April 25, 2008, the FASB issued FASB Staff Position (FSP) 142-3, *Determination of the Useful Life of Intangible Assets,* which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), *Business Combinations,* and other U.S. generally accepted accounting principles (GAAP). This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. Management is currently evaluating the effect that the adoption of FSP 142-3 will have on the Company's financial statements.

In December 2007, the FASB issued FASB Statement No. 141R, *Business Combinations* ("SFAS No. 141R") and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements- an amendment to ARB No. 51* ("SFAS No. 160"). SFAS No. 141R and SFAS No. 160 require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at "full fair value" and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS No.141R will be applied to business combinations occurring after the effective date. The accounting for contingent considerations under SFAS No. 141R requires the measurement of contingencies at the fair value on the acquisition date. Contingent considerations can be either a liability or equity based, and as such will be accounted for under SFAS No. 150, SFAS No. 133, or EITF 00-19. Subsequent changes to the fair value of the contingent consideration (liability) are recognized in earnings, not to goodwill, and equity classified contingent consideration amounts are not re-measured. SFAS No. 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The Company is currently evaluating the effect that the adoption of SFAS No. 141R and SFAS No. 160 will have on its results of operations and financial position.

3. STOCK BASED COMPENSATION AND PER SHARE INFORMATION

The Company accounts for stock-based compensation under SFAS No. 123R (Revised 2004), *Share-Based Payment*. Stock-based compensation expense for the three months ended September 30, 2008 and 2007 was $726 and $820, respectively, and for the six months ended September 30, 2008 and 2007 was $1,524 and $1,633, respectively. The estimated fair value of stock options granted during the three and six months ended September 30, 2008 approximated $85 and $142, respectively, net of expected forfeitures and is being recognized over their respective vesting periods. During the three and six months ended September 30, 2008, the Company recognized $18 and $31, respectively, of expense related to these options.

The Company has three share-based compensation plans for which options are currently outstanding. At the Company's Annual Shareholders' meeting on September 16, 2008, the Company's shareholders approved a new stock-based compensation plan, the 2008 Equity Incentive Plan ("2008 Plan"). With the adoption of the 2008 Plan, no further options may be granted under the Company's 2006 Stock Option Plan. The 2008 Plan permits the granting of incentive stock options, non-qualified stock options, and restricted stock units. Subject to certain adjustments, the maximum number of shares of common stock that may be issued under the 2008 Plan in connection with awards is 1,400,000 shares. These plans are administered by the compensation committee of the Board of Directors, which approves grants to individuals eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions, performance measures, and other provisions of the award. The Chief Executive Officer can also grant individual awards up to certain limits as approved by the compensation committee. Awards are generally granted based on the individual's performance. Terms for stock-option awards include pricing based on the closing price of the Company's common stock on the award date, and generally vest over three to five year requisite service periods using a graded vesting schedule or subject to performance targets established by the compensation committee. Shares issued under stock option plans are newly issued common stock. Readers should refer to Note 14 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2008 for additional information related to the three share-based compensation plans under which options are currently outstanding and the Company's 2008 Proxy Statement on Schedule 14A for our annual meeting of shareholders filed on July 29, 2008 for additional information related to the 2008 Plan.

During the three and six months ended September 30, 2008, the Company granted a total of 15,000 and 25,000 stock options, respectively, from the 2006 Stock Option Plan. The Company uses the Black-Scholes-Merton option pricing model to estimate the fair value of stock-based awards with the following assumptions for the indicated period.

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Dividend yield	-	-	-	-
Expected Volatility	40.3%	38.7%	39.8%	38.9%
Risk-Free Interest Rate	3.0%	4.9%	2.6%	4.6%
Expected term (in years)	2.0	2.0	2.0	2.0
Weighted-average grant-date fair value	$ 5.70	$ 9.64	$ 5.69	$ 9.31

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

During the six months ended September 30, 2008, approximately 30,270 stock options were exercised yielding $176 in cash proceeds and no tax benefit recognized as additional paid-in capital. During the six months ended September 30, 2007, approximately 95,182 stock options were exercised yielding $1,018 in cash proceeds and no tax benefit recognized as additional paid-in capital.

At September 30, 2008, there was $3,217 of unrecognized compensation cost adjusted for estimated forfeitures related to share-based payments, which is expected to be recognized over a weighted-average period of approximately 1.6 years.

Per Share Information*:* Basic per share information is computed based on the weighted average common shares outstanding during each period. Diluted per share information additionally considers the shares that may be issued upon exercise or conversion of stock options and warrants, less the shares that may be repurchased with the funds received from their exercise. Outstanding awards relating to approximately 1,866,430 and 1,466,645 weighted shares were excluded from the calculation for the three months ended September 30, 2008 and 2007, respectively, and approximately 1,861,949 and 1,604,420 weighted shares were excluded from the calculation for the six months ended September 30, 2008 and 2007, respectively, as the impact of including such awards in the calculation of diluted earnings per share would have had an anti-dilutive effect.

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

	Net income (Numerator)	Weighted Average Shares in thousands (Denominator)	Per-Share Amount
Three months ended September 30, 2008			
Basic per share information	$ 3,718	14,454	$ 0.26
Effect of dilutive securities	-	76	-
Diluted per-share information	$ 3,718	14,530	$ 0.26
Three months ended September 30, 2007			
Basic per share information	$ 3,369	14,318	$ 0.24
Effect of dilutive securities	-	184	(0.01)
Diluted per-share information	$ 3,369	14,502	$ 0.23
Six months ended September 30, 2008			
Basic per share information	$ 7,574	14,453	$ 0.52
Effect of dilutive securities	-	79	-
Diluted per-share information	$ 7,574	14,532	$ 0.52
Six months ended September 30, 2007			
Basic per share information	$ 7,112	14,303	$ 0.50
Effect of dilutive securities	-	178	(0.01)
Diluted per-share information	$ 7,112	14,481	$ 0.49

4. INVENTORIES

Inventories and inventory reserves for slow moving, obsolete and lower of cost or market exposures at September 30, 2008 and March 31, 2008 are summarized as follows:

	September 30, 2008	March 31, 2008
Raw Materials	$ 21,418	$ 17,474
Work-in-Process	5,856	6,140
Finished Goods	21,140	20,082
	48,414	43,696
Inventory Reserves	(3,695)	(3,410)
	$ 44,719	$ 40,286

5. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2008	March 31, 2008	Useful Life
Production equipment & tooling	$ 43,680	$ 43,893	3-10 years
Building and leasehold improvements	10,183	9,737	39 years or lesser of useful life or remaining term of lease

Furniture and equipment	12,195	12,000	3-10 years
Construction-in-progress	12,190	8,584	
Total	78,248	74,214	
Less: accumulated depreciation and amortization	(34,859)	(33,499)	
	$ 43,389	$ 40,715	

Total depreciation was $1,880 and $1,474 for the three months ended September 30, 2008 and 2007, respectively. Total depreciation was $3,854 and $2,901 for the six months ended September 30, 2008 and 2007, respectively. Property and equipment included $1,076 and $1,603 in capital leases at September 30, 2008 and March 31, 2008, respectively. Construction-in-progress at September 30, 2008 and March 31, 2008 includes approximately $10,128 and $7,364, respectively, related to the construction of the new facility in China.

6. ACQUISITIONS, GOODWILL AND ACQUIRED INTANGIBLES

Recent Acquisitions: As part of its growth strategy, the Company made twelve acquisitions since June 2004 with total purchase price exceeding $154,000, of which two acquisitions were made during each year ended March 31, 2008 and 2007. All of these acquisitions have been accounted for as purchases and have resulted in the recognition of goodwill in the Company's consolidated financial statements. This goodwill arises because the purchase prices for these businesses reflect a number of factors, including the future earnings and cash flow potential of these businesses, and other factors at which similar businesses have been purchased by other acquirers, the competitive nature of the process by which the Company acquired the business, and the complementary strategic fit and resulting synergies these businesses bring to existing operations.

Adjustments to decrease goodwill since March 31, 2008 relate to $301 in adjustments to purchase price allocations and $1,161 in translation adjustments for changes in foreign currency exchange rates. Goodwill balances presented in the condensed consolidated balance sheets of foreign acquisitions are translated at the exchange rate in effect at each balance sheet date; however, opening balance sheets used to calculate goodwill and acquired intangible assets are based on purchase date exchange rates, except for earn-out payments, which are recorded at the exchange rates in effect on the date the earn-out is accrued. The following briefly describes the Company's acquisitions from the beginning of fiscal 2007 forward.

YSI: Effective April 1, 2006, the Company completed the acquisition of all of the capital stock of YSIS Incorporated ("YSI Temperature"), a division of YSI Incorporated, for $14,252 ($14,000 in cash at close and $252 in acquisition costs). YSI Temperature manufactures a range of thermistors for automotive, medical, industrial and consumer goods applications. The transaction was financed with borrowings under the Company's Amended and Restated Credit Facility (See Note 7). The Company's final purchase price allocation related to the YSI Temperature acquisition follows:

Assets:		
Cash	$	440
Accounts receivable		3,109
Inventory		1,672
Prepaid assets and other		714
Property and equipment		1,134
Acquired intangible assets		2,142
Goodwill		7,588
Other		303
		17,102
Liabilities:		
Accounts payable		(884)
Accrued compensation		(780)
Deferred income taxes		(65)
Minority interest		(1,121)
		(2,850)
Total Purchase Price	$	14,252

The Company filed with the Internal Revenue Service a 338(h)(10) election for the YSI Temperature acquisition in December 2006, which for tax purposes, provides treatment of the acquisition as an asset purchase with the underlying assets stepped up to the fair value rather than as a stock purchase, and as result of this election, the deferred taxes initially recorded are no longer reflected as part of purchase accounting.

BetaTHERM: Effective April 1, 2006, the Company completed the acquisition of all of the capital stock of BetaTHERM Group Ltd., a sensor company headquartered in Galway, Ireland ("BetaTHERM"), for $37,248 ($33,741 in cash at closing, $1,787 in deferred acquisition payments which were paid in October 2007, $1,000 in Company shares and $720 in acquisition costs). BetaTHERM manufactures precision thermistors used for temperature sensing in aerospace, biomedical, automotive, industrial and consumer goods applications. BetaTHERM conducts business through operations located in Ireland, Massachusetts and China. The transaction was financed with borrowings under the Company's Amended and Restated Credit Facility (See Note 7). The Company executed a restructuring of BetaTHERM during the three months ended March 31, 2007, whereby the ownership of BetaTHERM's U.S. operation was transferred to Measurement Specialties, Inc. from BetaTHERM Ireland. This reorganization was part of the acquisition in that it was a requirement in our Amended and Restated Credit Facility and provided an efficient organizational structure for operational and tax purposes. The Company's final purchase price allocation related to the BetaTHERM acquisition follows:

Assets:		
Cash	$	2,388
Accounts receivable		3,180
Inventory		2,521
Property and equipment		3,551
Acquired intangible assets		8,609
Goodwill		25,803
Other		228
		46,280
Liabilities:		
Accounts payable		(1,733)
Accrued expenses		(695)
Taxes payable		(805)
Debt		(3,737)
Deferred income taxes		(2,062)
		(9,032)
Total Purchase Price	$	37,248

12

Visyx: Effective November 20, 2007, the Company acquired certain assets of Visyx Technologies, Inc. (Visyx") based in Sunnyvale, California for $1,624 ($1,400 at close, $100 held-back to cover certain expenses, and $124 in acquisition costs). The Seller has the potential to receive up to an additional $2,000 in the form of a contingent payment based on successful commercialization of specified sensors prior to December 31, 2011, and an additional $9,000 earn-out based on a percentage of sales in calendar years 2009, 2010 and 2011. If these earn-out contingencies are resolved and meet established conditions, these amounts will be recorded as an additional element of the cost of the acquisition. The resolution of these contingencies is not determinable at this time, and accordingly, the Company's purchase price allocation for Visyx is subject to earn-out payments. Visyx has a range of sensors that measure fluid properties, including density, viscosity and dielectric constant, for use in heavy truck/off road engines and transmissions, compressors/turbines, refrigeration and air conditioning. The Company's final purchase pricing allocation, except for earn-out contingencies, related to the Visyx acquisition follows:

Assets:		
Accounts receivable	$	12
Inventory		10
Acquired intangible assets		1,528
Goodwill		74
Total Purchase Price	$	1,624
Cash paid	$	1,400
Deferred payment		100
Costs		124
Total Purchase Price	$	1,624

Intersema: Effective December 28, 2007, the Company completed the acquisition of all of the capital stock of Intersema Microsystems S.A. ("Intersema"), a sensor company headquartered in Bevaix, Switzerland, for $40,160 ($31,249 in cash at closing, $8,708 in unsecured Promissory Notes ("Intersema Notes"), and $203 in acquisition costs). The Intersema Notes bear interest of 4.5% per annum and are payable in four equal annual installments beginning December 28, 2008. The selling shareholders have the potential to receive up to an additional $18,236 based on September 30, 2008 exchange rates or 20,000 Swiss francs tied to calendar 2009 earnings growth objectives, and if the contingencies are resolved and meet established conditions, these amounts will be recorded as an additional element of the cost of the acquisition. The resolution of these contingencies is not determinable at this time, and accordingly, the Company's purchase price allocation for Intersema is subject to earn-out payments. Intersema is a designer and manufacturer of pressure sensors and modules with low pressure, harsh media and ultra-small package configurations for use in barometric and sub-sea depth measurement markets. The transaction was financed with borrowings under the Company's Amended Credit Facility (See Note 7). The Company's final purchase price allocation, except for earn-out contingencies, related to the Intersema acquisition follows:

Assets:		
Cash	$	10,542
Accounts receivable		1,162
Inventory		3,770
Other assets		619
Property and equipment		1,811
Acquired intangible assets		13,773
Goodwill		14,144
		45,821
Liabilities:		

Accounts payable	(832)
Accrued compensation	(1,412)
Deferred income taxes	(3,417)
	(5,661)
Total Purchase Price	$ 40,160

13

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

		September 30, 2008			**March 31, 2008**		
	Weighted-Average Life in years	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Amortizable intangible assets:							
Customer relationships	9	$ 26,806	$ (7,393)	$ 19,413	$ 28,387	$ (5,950)	$ 22,437
Patents	15	4,280	(840)	3,440	4,391	(714)	3,677
Tradenames	3	1,780	(1,240)	540	1,895	(998)	897
Backlog	1	2,530	(2,353)	177	2,653	(2,067)	586
Covenants-not-to-compete	3	964	(920)	44	970	(910)	60
Proprietary technology	14	4,530	(807)	3,723	4,756	(647)	4,109
		$ 40,890	$ (13,553)	$ 27,337	$ 43,052	$ (11,286)	$ 31,766

Amortization expense for the quarter ended September 30, 2008 and 2007 was $1,359 and $740, respectively. Amortization expense for the six months ended September 30, 2008 and 2007 was $2,723 and $1,547, respectively. Estimated annual amortization expense is as follows:

Fiscal Year	**Amortization Expense**
2009	$ 4,537
2010	3,969
2011	3,614
2012	3,135
2013	2,314
Thereafter	9,768
	$ 27,337

Pro forma Financial Data (Unaudited): The following represents the Company's pro forma consolidated results of continuing operations for the quarter and six months ended September 30, 2007, based on final purchase accounting information, assuming the Visyx and Intersema acquisitions occurred as of April 1, 2007, giving effect to purchase accounting adjustments. The pro forma data is for informational purposes only and may not necessarily reflect results of operations had all the acquired companies been operated as part of the Company since April 1, 2007.

	Three months ended September 30, 2007	**Six months ended September 30, 2007**
Net sales	$ 61,337	$ 118,332
Income from continuing operations	$ 3,022	$ 6,409
Income from continuing operations per common share:		
Basic	$ 0.21	$ 0.45
Diluted	$ 0.21	$ 0.44

7. LONG-TERM DEBT

To support the financing of the acquisitions of YSI Temperature and BetaTHERM (See Note 6), effective April 1, 2006, the Company entered into an Amended and Restated Credit Agreement ("Amended and Restated Credit Facility") with General Electric Capital Corporation ("GE") as agent which, among other things, increased the Company's existing credit facility from $35,000 to $75,000, consisting of a $55,000 revolving credit facility and a $20,000 term loan, and lowered the applicable London Inter-bank Offered Rate ("LIBOR") or Index Margin from 4.50% and 2.75%, respectively, to LIBOR and Index Margins of 2.75% and 1.0%, respectively. To support the financing of the acquisition of Intersema (See Note 6), the Company entered into an Amended Credit Agreement ("Amended Credit Facility") with four banks, with GE as agent, effective December 10, 2007 which, among other things, increased the Company's existing revolving credit facility from $55,000 to $121,000 and lowered the applicable LIBOR or Index Margin from 2.75% and 1.0%, respectively, to LIBOR and Index Margins of 2.00% and 0.25%, respectively. Interest accrues on the principal amount of the borrowings at a rate based on either LIBOR plus a LIBOR margin, or at the election of the borrower, at an Index Rate (prime based rate) plus an Index Margin. The applicable margins may be adjusted quarterly based on a change in specified financial ratios. Borrowings under the line are subject to certain financial covenants and restrictions on indebtedness, dividend payments, financial guarantees, annual capital expenditures, and other related items. The availability of the revolving credit facility is not based on any borrowing base requirements, but borrowings are limited by certain financial covenants. The term portion of the Amended Credit Facility totaled $20,000 and the term loan portion of our credit facility was not changed with the Amended Credit Facility. The term loan is payable in $500 quarterly installments plus interest through March 1, 2011, with a final payment of $10,500 payable on April 3, 2011. The Company has provided a security interest in substantially all of the Company's U.S. based assets as collateral for the Amended Credit Facility. The Company is presently in compliance with applicable financial covenants.

14

As of September 30, 2008, the Company utilized the prime based rate for the term and revolving credit facilities under the Amended Credit Facility. The weighted average interest rate applicable to borrowings under the revolving credit facility was approximately 5.25% at September 30, 2008 and approximately 4.25% at October 31, 2008. As of September 30, 2008, the outstanding borrowings on the revolving credit facility, which is classified as long-term debt, were $54,214, and the Company had an additional $66,786 available under the revolving credit facility. The Company's borrowing capacity is limited by financial covenant ratios, and at September 30, 2008, the Company could borrow an additional $65,000. Commitment fees on the unused balance were equal to .375% per annum of the average amount of unused balances.

Promissory Notes: In connection with the acquisition of Intersema, the Company issued unsecured promissory notes ("Intersema Notes") totaling $9,115, of which $2,279 is classified as current at September 30, 2008. The Intersema Notes are payable in four annual installments of approximately $2,279 beginning December 28, 2008 and bear an interest rate of 4.5% per year.

Long-Term Debt and Promissory Notes: Below is a summary of the long-term debt and promissory notes outstanding at September 30, 2008 and March 31, 2008:

	September 30, 2008	March 31, 2008
Prime or LIBOR plus 2.00% or 0.25% five-year term loan with a final installment due on April 3, 2011	$ 15,000	$ 16,000
Governmental loans from French agencies at no interest and payable based on R&D expenditures.	537	794
Term credit facility with six banks at an interest rate of 4% payable through 2010.	827	1,079
Bonds issued at an interest rate of 3% payable through 2009.	253	553
Term credit facility with two banks at interest rates of 3.9%-4.0% payable through 2009.	6	40
	16,623	18,466
Less current portion of long-term debt	2,612	3,157
	$ 14,011	$ 15,309
4.5% promissory note payable in four equal annual installments through December 28, 2011	$ 9,115	$ 10,046
Less current portion of promissory notes payable	2,279	2,511
	$ 6,836	$ 7,535

The annual principal payments of long-term debt and revolver as of September 30, 2008 are as follows:

Year	Term	Other	Subtotal	Notes	Revolver	Total
2009	$ 2,000	$ 612	$ 2,612	$ 2,279	-	$ 4,891
2010	2,000	848	2,848	2,279	-	5,127

2011	11,000	135	11,135	2,279	54,214	67,628
2012	-	18	18	2,278	-	2,296
2013	-	10	10	-	-	10
Thereafter	-	-	-	-	-	-
Total	$ 15,000	$ 1,623	$ 16,623	$ 9,115	$ 54,214	$ 79,952

15

8. INCOME TAXES:

Income tax expense for interim reporting is based on an estimated overall effective tax rate for the entire fiscal year. The Company's overall effective tax rate without discrete adjustments during the three and six months ended September 30, 2008 is estimated to be approximately 28%, as compared to 24% during the same periods last year. Excluding the impact of the discrete non-cash tax adjustment in the prior year, the estimated overall effective income tax rate has been impacted by a higher portion of taxable income expected to be earned in tax jurisdictions with higher tax rates as compared to the prior year. The shift of taxable earnings is mainly a result of our forecast of higher earnings in the United States and Europe, as a result of continued cost controls, operating leverage and lower interest expense in those jurisdictions, in addition to the recent increase in the tax rates in China. The overall estimated effective tax rate is based on expectations and other estimates and involves complex domestic and foreign tax issues, which the Company monitors closely, but are subject to change.

During the quarter ended September 30, 2007, the Company recorded a discrete non-cash tax adjustment of approximately $997 for the revaluation of the net deferred tax assets in Germany resulting decrease in tax rates enacted in 2007. The Company's combined tax rate in Germany decreased from 39% to 31%, as a result of the German Business Tax Reform 2008, which became effective on August 17, 2007. The lower German corporate tax rates were effective in fiscal 2008. The Company is required by SFAS No. 109, *Accounting for Income Taxes*, to revalue the German net deferred tax assets at the lower combined German tax rate. Prior to the combined German tax rate reduction, the Company's German net deferred tax assets were valued at approximately $4,297 using a combined German tax rate of 39%, and after the combined German tax rate reduction, the Company's German net deferred tax assets were reduced to approximately $3,300 using a combined tax rate of approximately 31%. The resulting income tax expense of $997 was a discrete non-cash adjustment.

9. SEGMENT AND GEOGRAPHIC INFORMATION:

The Company continues to have one reporting segment, a sensor business, under the guidelines established with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, because of, among other things, the criteria for aggregation. Geographic information for revenues based on country of sale from which invoiced, and long-lived assets based on country of location, which includes property, plant and equipment, but excludes intangible assets and goodwill, net of related depreciation and amortization follows:

	For the three months ended September 30,		For the six months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net Sales:				
United States	$ 26,005	$ 28,030	$ 51,005	$ 55,337
France	7,509	6,446	15,315	12,696
Germany	4,642	5,110	9,484	9,360
Ireland	3,466	3,353	6,989	6,499
Switzerland	4,196	-	8,344	-
China	13,070	13,523	26,749	25,721
Total:	$ 58,888	$ 56,462	$ 117,886	$ 109,613

	September 30, 2008	March 31, 2008
Long Lived Assets:		
United States	$ 7,643	$ 6,624
France	6,269	6,808
Germany	2,593	2,817
Ireland	3,806	4,263
Switzerland	2,308	2,418

China		20,770		17,785
Total:	$	43,389	$	40,715

At September 30, 2008, approximately $6,449 of the Company's cash is maintained in China, which is subject to certain restrictions on the transfer to another country because of currency control regulations.

10. COMMITMENTS AND CONTINGENCIES:

Legal Matters: From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. The Company currently is not aware of any legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's business, financial condition, or operating results.

Acquisition Earn-Outs and Contingent Payments: In connection with the Company's acquisition of Assistance Technique Experimentale on January 19, 2006, the Company had potential performance based earn-out obligations totaling $1,888, of which approximately $158 remains accrued at September 30, 2008 for the final earn-out payment, because satisfaction of the sales growth objective was achieved. In connection with the Visyx acquisition, the Company has a contingent payment obligation of approximately $2,000 based on the commercialization of certain sensors, and a sales performance based earn-out totaling $9,000, none of which was accrued since the respective contingencies were not achieved at September 30, 2008. In connection with the Intersema acquisition, the Company has earnings performance based earn-out obligations totaling $18,236, none of which was accrued since the contingency was not achieved at September 30, 2008.

11. DERIVATIVE INSTRUMENTS:

The Company has a number of foreign currency exchange contracts to manage exposure to fluctuations of the U.S. dollar relative to the Euro and Chinese RMB ("RMB"). The Euro/U.S. dollar currency contracts have a total notional amount of $3,790 and $3,027 at September 30, 2008 and March 31, 2008, respectively, and the RMB/U.S. dollar contracts have a total notional amount of $20,000 at September 30, 2008. The exercise dates are through August 31, 2009 at an average exchange rate of $1.43 (Euro to U.S. dollar conversion rate) and $0.148 (RMB to U.S. dollar conversion rate). Since these derivatives are not designated as hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, changes in their fair value are recorded in earnings in foreign currency exchange gain or loss, not in accumulated other comprehensive income. As of September 30, 2008 and March 31, 2008, the fair value of these currency contracts was an asset of $2 and $34, respectively, and was included in other current assets.

12. DISCONTINUED OPERATIONS:

Effective December 1, 2005, the Company completed the sale to Fervent Group Limited (FGL) of its Consumer Products segment, including its Cayman Island subsidiary, Measurement Limited. FGL is a company controlled by the owners of River Display Limited, the Company's long time partner and primary supplier of consumer products in Shenzhen, China. Under the terms of the agreement, the Company sold to FGL the Company's Consumer Division for $8,500 in cash and a two-year non-interest bearing promissory note receivable from FGL. The Company recorded the promissory note receivable net of imputed interest of 5% at $3,800. In addition, the Company could have earned an additional $5,000 if certain performance criteria (sales and margin targets) were met within the first year. The Company recorded $2,156 of the earn-out in fiscal year 2007, because a portion of the earn-out targets were met. This amount is net of imputed interest, payable over eight quarters, and was reported in the 2007 consolidated statement of operations as the gain on disposition of discontinued operations and as net cash provided by investing activities of discontinued operations in the condensed consolidated statement of cash flows. The related receivable is included in the condensed consolidated balance sheet as current portion of promissory note receivable. At September 30, 2008 and March 31, 2008, the promissory notes receivable related to the sale and earn-out of the Consumer business totaled $271 and $809, respectively.

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

(Amounts in thousands, except per share data)

FORWARD-LOOKING STATEMENTS

INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

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

Any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, many of which are beyond our control. Actual results, developments and business decisions may differ materially from those envisaged by such forward-looking statements. These forward-looking statements speak only as of the date of the report, press release, statement, document, webcast or oral discussion in which they are made. Factors that might cause actual results to differ materially from the expected results described in or underlying our forward-looking statements include:

- Conditions in the general economy and in the markets served by us;

- Competitive factors, such as price pressures and the potential emergence of rival technologies;

· Interruptions of suppliers' operations or the refusal of our suppliers to provide us with component materials;

· Timely development, market acceptance and warranty performance of new products;

· Changes in product mix, costs and yields and fluctuations in foreign currency exchange rates;

· Uncertainties related to doing business in Europe and China;

· Legislative initiatives, including tax legislation and other changes in the Company's tax position;

· Legal proceedings, and

· The risk factors listed from time to time in the reports we file with the Securities and Exchange Commission ("SEC"), including those described under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2008.

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

OVERVIEW

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

Effective December 1, 2005, we completed the sale of our Consumer segment, including our Cayman Island subsidiary, Measurement Limited ("ML"), to Fervent Group Limited ("FGL"). FGL is a company controlled by the owners of River Display Limited, our long time partner and primary supplier of consumer products in Shenzhen, China. Accordingly, the related financial statements for the Consumer segment are reported as discontinued operations. All comparisons in Management's Discussion and Analysis for each of the periods ended September 30, 2008 and 2007, exclude the results of these discontinued operations except as otherwise noted.

EXECUTIVE SUMMARY

Over the past four fiscal years, the Company has grown sales as a result of consistent organic growth and growth through acquisitions. We have consummated twelve acquisitions since June 2004 with a cumulative purchase price exceeding $154,000, establishing new lines of business and/or expanding our geographic footprint. During our second quarter, sales growth has been influenced by curtailed spending by several of our top customers in large part due to the overall global economic conditions and tight credit markets. Customers tied to passenger and non-passenger vehicle, consumer product, residential/commercial construction, semiconductor, and commercial product markets are all generally reducing forecasts and delaying orders. As such, the Company's current organic growth rate is lower than historical levels and previous estimates.

Consistent with our strategy to expand our product portfolio and global footprint, we completed two acquisitions in fiscal 2008. In November 2007, we acquired the assets of Visyx, including novel intellectual property that utilizes a mechanical resonator to measure fluid properties. Under the leadership of our Humidity/Chemical Gas/Temperature/Optical Group ("HTG") in Toulouse, we have been able to advance the program and introduce production-ready prototypes to the market. While we are very enthusiastic about our progress and the initial customer commitment, we do not anticipate generating material sales until calendar year 2009, and accordingly, the investment being made in this technology negatively influenced operating results in fiscal 2008 and the first half of fiscal 2009. In December 2007, we acquired Intersema, a manufacturer of pressure sensors and modules. As a result of front-end loaded amortization, higher interest due to increased debt, significant appreciation of the Swiss franc from acquisition date, and specific integration and short term operating issues, Intersema's operating results underperformed relative to our expectations. Despite the shortfall from our expectations, we believe we will see meaningful positive earnings per share ("EPS") contribution for these acquisitions in fiscal 2010 and beyond.

To support the Intersema acquisition and future acquisition opportunities, we expanded our revolving credit facility in December 2007 by $66,000 to $121,000. As a result, we have approximately $67,000 available under the revolving facility which is limited by covenants to $65,000, as well as $22,714 in cash. We expect to continue our acquisition strategy in fiscal 2009 and beyond and we believe our strong liquidity positions us well to capitalize on opportunities that will likely arise as a result of the challenging market conditions.

A core tenet of our strategy is providing customized solutions to our customers. To cost effectively deliver this service, we have expanded our infrastructure in China considerably. Today, products generating approximately 60% of our net sales are manufactured in China and nearly 70% of our global employees are in our China operation. Given our commitment to the region in general, and Shenzhen in particular, and in order to mitigate the continued lease cost escalation in the future and add adequate room for expansion, we made the decision two years ago to lease property in Shenzhen and build a new manufacturing facility and Asian headquarters. We began construction on a 230,000 square foot facility last March, and expect to complete construction in late calendar 2008. The total estimated investment in the new facility is $12,000, at the upper end of our initial estimated range when stated in U.S. dollars, largely due to the appreciation of the Chinese renminbi ("RMB"). In addition to providing a low cost operation from which we can support other regions of the world, we believe our operation in China provides a gateway to drive increased sales in China and Asia. Our local sales in China, while relatively small today, are expanding at nearly twice the rate of our overall growth rate, and remain a key area of opportunity for the Company.

TRENDS

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

Over the past 5 years, we have enjoyed annual organic sales growth ranging from 12% in fiscal 2008 to as high as 20% in previous years. Including sales from acquired companies, our compounded annual growth rate from fiscal 2004 to fiscal 2008 was approximately 40%. Factors that influence our organic growth rate from year to year include our market growth with existing applications and successful introduction of new products and applications that allow us to gain market share. In general, we expect the sensor market will continue to expand at a higher rate than overall economic growth as a result of the increase in sensor content in various products across most end markets. However, our customers are clearly impacted by macro-economic trends. Accordingly, we believe our lower organic growth in fiscal 2008 as compared to prior years was in part due to slower growth of our customers in certain markets and regions. Additionally, our historical organic growth has been favorably influenced by the growth of our largest customer, Sensata; however, due to the weak automotive market as well as Sensata's insourcing program, we expect Sensata's sales to decline relative to prior years. Given an overall economic environment that remains unpredictable and challenging, we are expecting reduced organic sales growth for the remainder of fiscal 2009. Accordingly, we expect to fall short of our prior full year sales guidance of $255 million and our prior full year earnings guidance of $1.30 per share, and we are not prepared to provide updated guidance at this time.

Gross margins have trended down over the past several years, largely due to unfavorable product sales mix (both in terms of organic growth and acquired sales) and the impact of the increase in the value of the RMB relative to the U.S. dollar. Growth with Sensata over the past several years, which serves primarily the auto market and carries a lower gross margin than our average, has grown faster than our average growth and therefore contributed to the overall decline in gross margin. Additionally, recent acquisitions have operated with a lower gross margin than our pre-acquisition average, resulting in a decline in the consolidated margin. Finally, given that the Company has more costs than sales denominated in RMB (short RMB position), increases in the RMB relative to the U.S. dollar have resulted in margin erosion. During the second quarter of fiscal 2009, the Company entered into four deliverable forward contracts spanning twelve months with a notional amount totaling $20,000 in an attempt to hedge a large portion of the short RMB position. We have also experienced inflationary increases in raw material commodities and wages (particularly in China), and while we have generally been successful in offsetting these increases with productivity gains, inflationary pressures remain a risk and concern in fiscal 2009. While the sales growth rate in fiscal 2009 will likely be lower than prior years, we anticipate the mix of sales to improve, in part due to lower proportion of anticipated sales from Sensata. For fiscal 2009, we anticipate our overall average gross margins to be in the range of 41% to 44% as compared to gross margins of 41.8% and 43.7% for fiscal years 2008 and 2007, respectively.

While gross margin has declined over the last several years, Selling, General and Administrative expense (“SG&A”) as a percent of sales has also declined. We have been successful in leveraging our SG&A expense, growing SG&A expense more slowly than our growth in sales. As a percent of sales, SG&A has declined to 26.5% in fiscal 2008, as compared to 28.1% and 32.1% in fiscal 2007 and 2006, respectively. Given fiscal 2009 sales growth will likely be lower than in past years, as well as a result of higher investment in new programs that are not yet generating sales (such as our new fluid property sensor), we are expecting SG&A as a percent of sales in fiscal 2009 to increase.

Amortization of acquired intangible assets increased dramatically from fiscal 2004 to fiscal 2007, associated with the acquisitions completed over those periods. Amortization is disproportionately loaded more in the initial year of the acquisition, and therefore amortization expense is higher in the quarters immediately following a transaction, and declines after the first year based on how various intangible assets are valued and amortized. With the acquisition of Intersema and Visyx recently completed, amortization will increase in fiscal 2009 as compared to fiscal 2008 to approximately $5,000.

In addition to the margin exposure as a result of the depreciation of the U.S. dollar due to higher level of costs than sales denominated in RMB, the Company also has foreign currency exchange exposures with balance sheet accounts. When foreign currency exchange rates fluctuate, there is a resulting revaluation of assets and liabilities denominated and accounted for in foreign currencies. Foreign currency exchange ("fx") expense due to the revaluation of local subsidiary balance sheet accounts with realized fx transactions and unrealized fx translation adjustments has increased sharply in recent years. For example, our Swiss company, Intersema, which uses the Swiss franc as their functional currency, holds cash denominated in foreign currencies (U.S. dollar and Euro). As the Swiss franc appreciates against the U.S. dollar and/or Euro, the cash balances held in those denominations are devalued when stated in terms of Swiss franc. These transaction and translation losses are reflected in our "Foreign Currency Exchange Loss." Aside from cash, our foreign entities generally hold receivables in foreign currencies, as well as payables. In fiscal 2008, we posted a net expense of $618 in realized and unrealized foreign exchange losses associated with the revaluation of foreign assets held in foreign entities. We would expect to see continued fx expense associated with a weakening U.S. dollar. We continue to evaluate various global hedging strategies in order to manage this exposure.

Our overall effective tax rate will continue to fluctuate as a result of the allocation of earnings between various taxing jurisdictions with varying tax rates and with changes in tax rates. However, we expect our overall effective tax rate to generally increase due to more of our total income being generated in Europe and the United States, which are subject to higher effective tax rates than our average and an increase in the China effective tax rate due to changes in the China tax law effective January 1, 2008.

The Company expects to continue investing in various capital projects in fiscal 2009 at a rate comparable to fiscal 2008. Excluding the investment in the new China facility, capital spending is expected to remain in the range of 4.5% to 5.0% of sales.

RESULTS OF CONTINUING OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2007

THE FOLLOWING TABLE SETS FORTH CERTAIN ITEMS FROM CONTINUING OPERATIONS IN OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007, RESPECTIVELY:

	Three months ended September 30 ,			Percent
	2008	**2007**	**Change**	**Change**
Net sales	**$ 58,888**	**$ 56,462**	$ 2,426	**4.3**
Cost of goods sold	33,851	33,101	750	2.3
Gross profit	25,037	23,361	1,676	7.2
Operating expenses:				
Selling, general, and administrative	16,425	14,526	1,899	13.1
Non-cash equity based compensation (SFAS 123R)	726	820	(94)	(11.5)
Amortization of acquired intangibles	1,359	740	619	83.6
Total operating expenses	18,510	16,086	2,424	15.1
Operating income	6,527	7,275	(748)	(10.3)
Interest expense, net	806	1,207	(401)	(33.2)
Foreign currency exchange loss	396	405	(9)	(2.2)
Other expense (income)	68	(134)	202	(150.7)
Income from continuing operations before minority interest and income	5,257	5,797	(540)	(9.3)

taxes							
Minority interest, net of income taxes		93		78		15	19.2
Income from continuing operations before income taxes		5,164		5,719		(555)	(9.7)
Income tax expense (benefit) due to tax law changes		-		997		(997)	(100.0)
Income tax expense from continuing operations		1,446		1,373		73	5.3
Income tax expense from continuing operations		1,446		2,370		(924)	(39.0)
Income from continuing operations	**$**	**3,718**	**$**	**3,349**	**$**	**369**	**11.0**

Net Sales: Net sales for the quarter increased 4.3% or $2,426 from $56,462 to $58,888. The overall increase in sales is due to sales from the Intersema acquisition. Organic sales, which is defined as net sales excluding sales attributed to Visyx and Intersema, which we acquired in fiscal 2008 (the "2008 Acquisitions"), declined $1,770 or 3%. Overall organic sales for fiscal 2009 were expected to be lower than the past few years; however, we have revised our expectation for lower organic sales downward further due primarily to the challenging global economic situation and uncertainty.

The Company is seeing softening of demand for sensors due to macro-economic conditions, but we believe our diverse product offering and customer base will help the Company during difficult economic periods. All four business groups registered declines in organic sales in the quarter ended September 30, 2008 as compared to the quarter ended September 30, 2007, due in large part to the current economic environment. Humidity/Chemical Gas/Temperature/Optical Group (HTG) sales decreased mostly due to the $845 decrease in Temperature and Optical sales. Optical sales were impacted by the loss of a medical customer, and Humidity sales also decreased slightly during the quarter due to the effects of the economy. Position/Vibration Group sales decreased $414, primarily reflecting the loss of a Position customer. Pressure/Force Group (PFG) organic sales decreased $562 during the quarter due mainly to the decline in sales with Sensata, our largest customer, resulting from, among other things, Sensata's efforts to reduce inventory.

Gross Margin: Gross margin (gross profit as a percent of net sales) improved to approximately 42.5% for the quarter ended September 30, 2008 from 41.4% during the quarter ended September 30, 2007. The increase in margin is due to several factors, including product sales mix and certain cost control measures, and is partially offset by the strengthening of the Chinese renminbi ("RMB") and higher costs resulting from increased prices for oil and other commodities. The more favorable product sales mix is largely associated with lower proportion of sales of lower gross margin products. This would include sales to our largest customer, Sensata, which primarily serves the automotive market and carries a lower gross margin than our average. The average RMB exchange rate relative to the U.S. dollar for the three months ended September 30, 2008 appreciated approximately 9.5% as compared to the same period last year. This translates to approximately $1,767 in annualized margin erosion.

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

Operating Expense and Selling, General and Administrative: Overall, total operating expenses increased $2,424 or 15.1% to $18,510 largely due to costs associated with 2008 Acquisitions. As a percent of net sales, operating expenses increased to 31.4% from 28.5%. The increase in operating expenses as a percent of net sales is due to costs increasing at a higher rate as compared to net sales, which is the resulting impact of lower organic sales, and higher salaries, amortization and professional fees and other costs directly related to 2008 Acquisitions.

SG&A expenses increased $1,899 or 13.1% to $16,425 for the three months ended September 30, 2008 from $14,526 for the same period last year. As a percentage of net sales, SG&A expenses increased to 27.9% from approximately 25.8%. The largest increases were with selling and marketing expenses, wages and professional fees. Higher wages reflect, among other things, additional salaries with 2008 Acquisitions, as well as professional fees and related integration costs. Approximately $996 of the $1,899 increase in SG&A was associated with fiscal 2008 Acquisitions.

Stock Option Expense: Stock option expense decreased $94 to $726 from $820 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The decrease in option expense is due to the ratable (i.e., higher expense recognition during the front-end) recognition of non-cash equity based compensation under SFAS No. 123R, *Share-Based Payment* from the prior year issuance of options under the long-term contract with our Chief Financial Officer. Total compensation cost related to share based payments not yet recognized totaled $3,217 at September 30, 2008, which is expected to be recognized over a weighted average period of approximately 1.6 years.

Amortization of acquired intangibles**:** Amortization of acquired intangible assets increased $619 to $1,359 for the three months ended September 30, 2008 as compared to $740 for the three months ended September 30, 2007, which is mainly due to higher amortization expense associated with the 2008 Acquisitions. Amortization expense for intangible assets is higher during the first year after an acquisition because, among other things, the order back-log is fully amortized during the initial year.

Interest expense, net: Interest expense decreased $401 to $806 for the three months ended September 30, 2008 from $1,207 during the three months ended September 30, 2007. The decrease in interest expense is primarily attributable to the decrease in interest rates from 7.7% last year to 4.8% this year, partially offset by an increase in the average total outstanding debt from an average amount outstanding of $56,793 during the three months ended September 30, 2007 to $73,268 during the three months ended September 30, 2008.

Foreign Currency Exchange Loss: The increase in foreign currency exchange loss mainly reflects the continued impact to the appreciation of the RMB relative to the U.S. dollar, as well as impact of the appreciation of the U.S. dollar relative to the Euro and Swiss franc.

During the second quarter of fiscal 2009, the Company entered into a number of forward contracts with a notional amount totaling $20,000 in an attempt to hedge a large portion of the short RMB position.

Other expense and income: Other expense and income consist of various non-operating items, including sales of tooling and other miscellaneous income and expense items. Other expense and income fluctuated from income of $134 to an expense of $68 for the quarter ended September 30, 2008, mainly due to lower levels of tooling sales and higher level of miscellaneous expenses.

Income Taxes: Total income tax expense during the second quarter of fiscal 2009 decreased $924 to $1,446, as compared to $2,370 for the second quarter of fiscal 2008. The decrease in income tax expense is mainly due to a discrete tax adjustment during the prior year, partially offset by a higher overall estimated annual effective tax rate for fiscal 2009.

Our overall effective tax rate (income tax from continuing operations divided by income from continuing operations before income taxes) was approximately 28% for the three months ended September 30, 2008. Income tax expense for interim reporting is based on an estimated overall effective tax rate for the entire fiscal year. The Company’s overall effective tax rate without discrete adjustments for fiscal 2009 is estimated to be approximately 28%, as compared to 24% during the same period last year. Excluding the impact of the discrete non-cash tax adjustment in the prior year, the estimated overall effective income tax rate has been impacted by a higher portion of taxable income expected to be earned in tax jurisdictions with higher tax rates as compared to the prior year. The shift of taxable earnings is mainly a result of our forecast of higher earnings in the United States and Europe, as a result of continued cost controls, operating leverage and lower interest expense in those jurisdictions, in addition to the recent increase in the tax rates in China. The overall estimated effective tax rate is based on expectations and other estimates and involves complex domestic and foreign tax issues, which the Company monitors closely, but which are subject to change.

During the quarter ended September 30, 2007, the Company recorded a discrete non-cash tax adjustment of approximately $997 for the revaluation of the net deferred tax assets in Germany resulting from a decrease in tax rates enacted in 2007. The Company's combined tax rate in Germany decreased from 39% to 31%, as a result of the German Business Tax Reform 2008, which became effective on August 17, 2007. The lower German corporate tax rates were effective in fiscal 2008. The Company is required by SFAS No. 109, *Accounting for Income Taxes*, to revalue the German net deferred tax assets at the lower combined German tax rate. Prior to the combined German tax rate reduction, the Company's German net deferred tax assets were valued at approximately $4,297 using a combined German tax rate of 39%, and after the combined German tax rate reduction, the Company's German net deferred tax assets were reduced to approximately $3,300 using a combined tax rate of approximately 31%. The resulting income tax expense of $997 was a discrete non-cash adjustment.

SIX MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO SIX MONTHS ENDED SEPTEMBER 30, 2007

THE FOLLOWING TABLE SETS FORTH CERTAIN ITEMS FROM CONTINUING OPERATIONS IN OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2008 AND 2007, RESPECTIVELY:

	Six months ended September 30 ,			Percent
	2008	2007	Change	Change
Net sales	**$ 117,886**	**$ 109,613**	**$ 8,273**	**7.5**
Cost of goods sold	67,608	63,368	4,240	6.7
Gross profit	50,278	46,245	4,033	8.7
Operating expenses:				
Selling, general, and administrative	33,851	29,497	4,354	14.8
Non-cash equity based compensation (SFAS 123R)	1,524	1,633	(109)	(6.7)
Amortization of acquired intangibles	2,723	1,547	1,176	76.0
Total operating expenses	38,098	32,677	5,421	16.6
Operating income	12,180	13,568	(1,388)	(10.2)
Interest expense, net	1,512	2,393	(881)	(36.8)
Foreign currency exchange loss	332	442	(110)	(24.9)
Other income	(353)	(33)	(320)	969.7
Income from continuing operations before minority interest and income taxes	10,689	10,766	(77)	(0.7)
Minority interest, net of income taxes	170	161	9	5.6
Income from continuing operations before income taxes	10,519	10,605	(86)	(0.8)
Income tax expense due to tax law changes	-	997	(997)	100.0
Income tax expense from continuing operations	2,945	2,546	399	15.7
Income tax expense from continuing operations	2,945	3,543	(598)	(16.9)
Income from continuing operations	**$** 7,574	$ **7,062**	$ 512	**7.3**

Net Sales: Net sales for the six months ended September 30, 2008 increased $8,273 or 7.5% to $117,886 from $109,613, as compared to the corresponding period last year. Organic sales growth, which is defined as net sales excluding sales attributed to 2008 Acquisitions, decreased $71 or approximately 0.1%. The overall level of organic sales growth for fiscal 2009 was expected to be lower than the past few years; however, we have revised our expectation for lower organic sales downward further due primarily to the challenging global economic situation and uncertainty, as well as due to lower sales with Sensata, the Company's largest customer.

During the six months ended September 30, 2008, PFG and Humidity both registered organic growth in sales of $847 and $525, respectively, which was more than offset by decreases in sales in Temperature and PVG of $1,318 and $230, respectively. While we expect Sensata to be flat for the year, the Company's first half Sensata sales continued at positive levels. Humidity sales during the first six months of fiscal 2009 were also relatively strong due to continued success of our humidity products in fogging prevention and engine management applications, as well as sense elements used in the measurement of mass air flow. Optical and PVG sales decreased due to the loss of a customer in Optical and a loss of a Position customer. The Company continues to see softening of sensors demand due to macro-economic conditions, but we believe our diverse product offering and customer base will help the Company during difficult economic periods.

Gross Margin: Gross margin (gross profit as a percent of net sales) increased to approximately 42.6% for the six months ended September 30, 2008 from 42.2% during the six months ended September 30, 2007. The improvement in gross margin is due to several factors, including product sales mix and various cost control measures, partially offset by the strengthening of the Chinese RMB and the impact of higher prices for oil and other commodities. The more favorable product sales mix is largely associated with decreased proportion of sales of lower gross margin products. This would include sales to our largest customer, Sensata, which primarily serves the automotive market and carries a lower gross margin than our average. There has also been an adverse impact on margins due to increases in certain costs reflecting the pervasive impact on costs associated with higher prices for oil and other commodities. The average Chinese RMB exchange rate relative to the U.S. dollar for the six months ended September 30, 2008 appreciated approximately 9.4% as compared to the same period last year. This translates to approximately $1,748 in annualized margin erosion.

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

Operating Expense and Selling, General and Administrative: Overall, total operating expenses for the six months ended September 30, 2008 increased $5,421 or 16.6% to $38,098, as compared to the same period last year, largely due to costs associated with 2008 Acquisitions. As a percent of net sales, operating expenses increased to 32.3% from 29.8%. The increase in operating expenses as a percent of net sales is due to costs increasing at a higher rate as compared to net sales, which is the resulting impact of higher salaries, amortization and professional fees and other costs directly related to 2008 Acquisitions.

SG&A expenses increased $4,354 or 14.8% to $33,851 for the six months ended September 30, 2008 from $29,497 for the same period last year. As a percentage of net sales, SG&A expenses increased to 28.7% from 26.9%. The largest increases were with wages and professional fees. Higher wages reflect, among other things, additional salaries with 2008 Acquisitions, and professional fees reflect legal and accountant fees associated with acquisitions, related integration costs, and fiscal year end audit and tax work. Approximately $2,319 of the $4,354 increase in SG&A was associated with 2008 Acquisitions.

Stock Option Expense: Stock option expense decreased $109 to $1,524 from $1,633 for the six months ended September 30, 2008 compared to the six months ended September 30, 2007. The decrease in stock option expense is mainly due to the ratable (i.e., higher expense recognition during the front-end) recognition of non-cash equity based compensation under SFAS No. 123R, *Share-Based Payment* from the prior year issuance of options under the long-term contract with our Chief Financial Officer.

***Amortization of acquired intangibles*:** Amortization of acquired intangible assets increased $1,176 to $2,723 for the six months ended September 30, 2008 as compared to $1,547 for the six months ended September 30, 2007, which is mainly due to higher amortization expense associated with the 2008 Acquisitions. Amortization expense for intangible assets is higher during the first year after an acquisition because, among other things, the order back-log is fully amortized during the initial year.

Interest expense, net: Interest expense decreased $881 to $1,512 for the six months ended September 30, 2008 from $2,393 during the six months ended September 30, 2007. The decrease in interest expense is primarily attributable to the decrease in interest rates from 7.7% last year to 4.8% this year, partially offset by an increase in the average total outstanding debt from an average amount outstanding of $57,450 during the six months ended September 30, 2007 to $73,655 during the six months ended September 30, 2008.

Foreign Currency Exchange Gain or Loss: The increase in foreign currency exchange loss mainly reflects the continued impact of the appreciation of the RMB relative to the U.S. dollar, as well as the impact of the appreciation of the U.S. dollar relative to the Euro and Swiss franc.

During the second quarter of fiscal 2009, the Company entered into a number of forward contracts with a notional amount totaling $20,000 in an attempt to hedge a large portion of the short RMB position and impact on margins.

Other expense and income: Other expense and income consist of various non-operating items, including sales of tooling and other miscellaneous income and expense items. The increase from income of $33 last year to income of $353 reflects approximately $500 of Chinese incentives for foreign investments provided to the Company.

Income Taxes: Total income tax expense during the six months of fiscal 2009 decreased $598 to $2,945 as compared to $3,543 for the first six months of fiscal 2008. The decrease in income tax expense is mainly due to a prior year discrete tax adjustment, partially offset by a higher estimated overall annual effective tax rate.

Our overall effective tax rate (income tax from continuing operations divided by income from continuing operations before income taxes) was approximately 28% for the six months ended September 30, 2008. Income tax expense for interim reporting is based on an estimated overall effective tax rate for the entire fiscal year. The Company's overall effective tax rate without discrete adjustments during the six months ended September 30, 2008 is estimated to be approximately 28%, as compared to 24% during the same period last year. Excluding the impact of the discrete non-cash tax adjustment in the prior year, the estimated overall effective income tax rate has been impacted by a higher portion of taxable income expected to be earned in tax jurisdictions with higher tax rates as compared to the prior year. The shift of taxable earnings is mainly a result of the forecast of higher earnings in the United States and Europe, as a result of continued cost controls, operating leverage and lower interest expense in those jurisdictions, in addition to the recent increase in the tax rates in China. The overall estimated effective tax rate is based on expectations and other estimates and involves complex domestic and foreign tax issues, which the Company monitors closely, but which are subject to change.

During the quarter ended September 30, 2007, the Company recorded a discrete non-cash tax adjustment of approximately $997 for the revaluation of the net deferred tax assets in Germany resulting from a decrease in tax rates enacted in 2007. The Company's combined tax rate in Germany decreased from 39% to 31%, as a result of the German Business Tax Reform 2008, which became effective on August 17, 2007. The lower German corporate tax rates were effective in fiscal 2008. The Company is required by SFAS No. 109, *Accounting for Income Taxes*, to revalue the German net deferred tax assets at the lower combined German tax rate. Prior to the combined German tax rate reduction, the Company's German net deferred tax assets were valued at approximately $4,297 using a combined German tax rate of 39%, and after the combined German tax rate reduction, the Company's German net deferred tax assets were reduced to approximately $3,300 using a combined tax rate of approximately 31%. The resulting income tax expense of $997 was a discrete non-cash adjustment.

LIQUIDITY AND CAPITAL RESOURCES

The $1,149 increase in cash balances at September 30, 2008 as compared to March 31, 2008 reflects, among other things, the increase in cash balances in China for funding the construction of the new China facility. Other factors contributing to the fluctuation in cash balances at September 30, 2008 include overall cash generated from operations and lower net repayments of debt partially offset by purchases of property and equipment. Cash balances are expected to decline as the Company funds the construction of the new facility in China, and implements various strategies to finance the Company's operations by improving cash and working capital management.

Cash provided from operating activities was $15,574 for the six months ended September 30, 2008, as compared to $11,906 for the six months ended September 30, 2007. The $3,668 increase in operating cash flows reflects the Company's the overall impact of our continued efforts to improve working capital management relative to the prior year, including improvements in collections of accounts receivable, which were offset by increases in inventory levels due to the building of inventory in China for the anticipated facility move and the impact of lower organic sales growth. Additionally, the prior year operating cash flows included the $1,275 payment for the settlement of certain litigation. Other major items positively impacting current operating cash flows were higher depreciation and amortization expense due to acquisitions and capital additions, and higher income tax payable. Other major items offsetting current operating cash flows were fluctuations in accounts payable and deferred income taxes. Accounts payable decreases are mainly a function of the timing of payments and accruals, and the prior year deferred taxes mainly reflect the discrete adjustment recorded due to the change in German income tax rates. We expect to continue to build inventory in the third quarter in preparation of our China facility move.

Net cash used in investing activities was $7,962 for the six months ended September 30, 2008 as compared to $4,909 for the corresponding period last year. Overall capital spending levels of $7,966 for the six months ended September 30, 2008 were higher than the $4,934 for the six months ended September 30, 2007, because of capital expenditures related to the Company's new facility in China, as well as various capital projects for production equipment.

Financing activities for the six months ended September 30, 2008 used $5,902 of net cash, as compared to $6,932 used in financing activities during the same period last year. The overall net amount for debt payments and borrowings were comparable to the prior year; however, proceeds from exercise of options was lower that the prior year. Employees exercised fewer options this year as compared to last year mainly due to the lower price of the Company's stock. During the six months ended September 30, 2008, the Company made debt payments of approximately $4,000 against the revolver and over $1,000 in long-term debt payments.

Long-Term Debt: To support the financing of the acquisitions of YSI Temperature and BetaTHERM (See Note 6), effective April 1, 2006, the Company entered into an Amended and Restated Credit Agreement ("Amended and Restated Credit Facility") with General Electric Capital Corporation ("GE") which, among other things, increased the Company's existing credit facility from $35,000 to $75,000, consisting of a $55,000 revolving credit facility and a $20,000 term loan, and lowered the applicable London Inter-bank Offered Rate ("LIBOR") or Index Margin from 4.50%

and 2.75%, respectively, to LIBOR and Index Margins of 2.75% and 1.0%, respectively. To support the financing of the acquisition of Intersema (See Note 6), the Company entered into an Amended Credit Agreement ("Amended Credit Facility") with GE effective December 10, 2007 which, among other things, increased the Company's existing revolving credit facility from $55,000 to $121,000 and lowered the applicable LIBOR or Index Margin from 2.75% and 1.0%, respectively, to LIBOR and Index Margins of 2.00% and 0.25%, respectively. Interest accrues on the principal amount of the borrowings at a rate based on either LIBOR plus a LIBOR margin, or at the election of the borrower, at an Index Rate (prime based rate) plus an Index Margin. The applicable margins may be adjusted quarterly based on a change in specified financial ratios. Borrowings under the line are subject to certain financial covenants and restrictions on indebtedness, dividend payments, financial guarantees, annual capital expenditures, and other related items. The availability of the revolving credit facility is not based on any borrowing base requirements, but borrowings are limited by certain financial covenants. The term portion of the Amended Credit Facility totaled $20,000 and the term loan portion of our credit facility was not changed with the Amended Credit Facility. The term loan is payable in $500 quarterly installments plus interest through March 1, 2011, with a final payment of $10,500 payable on April 3, 2011. The Company has provided a security interest in substantially all of the Company's U.S. based assets as collateral for the Amended Credit Facility. The Company is presently in compliance with applicable financial covenants.

As of September 30, 2008, the Company utilized the prime based rate for the term and revolver credit facilities with GE. The weighted average interest rate applicable to borrowings under the revolving credit facility was approximately 5.25% at September 30, 2008 and approximately 4.25% at October 31, 2008. As of September 30, 2008, the outstanding borrowings on the revolver, which is classified as long-term debt, were $54,214, and the Company had an additional $66,786 available under the revolving credit facility. The Company's borrowing capacity is limited by financial covenant ratios, and at September 30, 2008, the Company could borrow an additional $65,000. Commitment fees on the unused balance were equal to .375% per annum of the average amount of unused balances.

In connection with the acquisition of Intersema, the Company issued unsecured promissory notes ("Intersema Notes") denominated in Swiss francs totaling $9,115, of which $2,279 is classified as current at September 30, 2008. The Intersema Notes are payable in four annual installments of $2,279 beginning December 28, 2008 and bear an interest rate of 4.5% per year.

LIQUIDITY

The recent problems in the global financial markets have not directly had a significant impact on the Company's financial position or liquidity as of the filing date of this Report. Management continues to monitor the financial markets and general global economic conditions. The Company's credit facility is spread among a group of lenders and management works closely with our lender group. If further changes in financial markets or other areas of the economy adversely affect the Company, the Company would expect to rely on a combination of available cash and existing committed credit facilities to provide short-term funding.

Management assesses the Company's liquidity in terms of available cash and our ability to generate cash to fund its operating, investing and financing activities. The Company continues to generate strong cash from operating activities, and the Company remains in a strong financial position with resources available from availability under existing credit facilities.

At September 30, 2008, we had approximately $22,714 of available cash and $65,000 of borrowing capacity under the revolving credit facility. This cash balance includes cash of $6,449 in China, which is subject to certain restrictions on the transfer to another country because of currency control regulations. We believe the Company's financial position, generation of cash and ability to refinance or obtain additional financing will be sufficient to meet funding of day-to-day and material short and long-term commitments for the foreseeable future.

ACCUMULATED OTHER COMPREHENSIVE INCOME

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions may require significant judgment about matters that are inherently uncertain, and future events are likely to occur that may require management to change them. Accordingly, management regularly reviews these estimates and assumptions based on historical experience, changes in the business environment and other factors that management believes to be reasonable under the circumstances. Management discusses the development, selection and disclosures concerning critical accounting policies with the Audit Committee of its Board of Directors. There have been no significant changes to the Application of Critical Accounting Policies disclosure contained in the Company's Annual Report on Form 10-K for the year ended March 31, 2008.

NEW ACCOUNTING PRONOUNCEMENT

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"). This new standard provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

On February 12, 2008, the FASB issued FASB Staff Positions that delayed for one year the applicability of SFAS No. 157's fair-value measurement requirements to certain nonfinancial assets and liabilities, exclude most lease accounting fair-value measurements from SFAS No. 157's scope, and defer the effective date of the AICPA Statement of Positions that defines "investment company" for purposes of applying the industry-specific guidance in an AICPA guide.

The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, except for that portion of provisions deferred for one year by the February 12, 2007 FASB Staff Positions. Effective April 1, 2008, the Company adopted the applicable provisions of SFAS No. 157, except for that portion of the provisions deferred for one year. The implementation of the adopted provisions of SFAS No. 157 did not have a material impact on the Company's financial position or results of operations. Management is currently evaluating the effect that the adoption of the deferred portions of provision of SFAS No. 157 will have on the Company's financial statements.

DIVIDENDS

We have not declared cash dividends on our common equity. The payment of dividends is prohibited under the Amended Credit Facility.

At present, there are no material restrictions on the ability of our Hong Kong and European subsidiaries to transfer funds to us in the form of cash dividends, loans, advances, or purchases of materials, products, or services. Chinese laws and regulations, including currency exchange controls, restrict distribution and repatriation of dividends by our China subsidiary. Additionally, there are certain Swiss fiscal restrictions related to the distribution of CHF 10,412 or approximately $9,494 of pre-acquisition retained earnings with Intersema.

SEASONALITY

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

INFLATION

We compete on the basis of product design, features, and value. Accordingly, our revenues generally have kept pace with inflation, notwithstanding that inflation in the countries where our subsidiaries are located has been consistently higher than inflation in the United States. Increases in labor costs have not had a significant impact on our business because most of our employees are in China, where prevailing labor costs are relatively low. However, we have experienced increases in material costs, such as steel, non-ferrous metals and petroleum-based products, as well as the impact of the appreciation of the RMB relative to the U.S. dollar.

OFF-BALANCE SHEET ARRANGEMENTS

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

AGGREGATE CONTRACTUAL OBLIGATIONS

Estimated annual payments under contractual obligations as of September 30, 2008 are as follows:

Contractual Obligations:	**Payment due by period**				
	Total	**1 year**	**2-3 years**	**4-5 years**	**> 5years**
Long-term debt obligations	$ 79,952	$ 4,891	$ 72,755	$ 2,306	$ -
Interest obligation on long-term debt	10,909	3,838	6,960	111	-
Capital lease obligations	1,076	730	346	-	-
Operating lease obligations *	11,063	4,063	4,575	1,541	884
Other long-term obligations**	824	624	200	-	-
Capital additions (China facility)	2,109	2,109	-	-	-
Total	$ 105,933	$ 16,255	$ 84,836	$ 3,958	$ 884

* - Minimum payments have not been reduced by minimum sublease rentals of $150 per year due in the future under non-cancelable subleases.
** - Other long-term obligations on the Company's balance sheet under GAAP primarily consist of obligations under warranty polices and tax liabilities. The timing of cash flows associated with these obligations is based upon management's estimate over the terms of these arrangements and are largely based on historical experience.

Amounts in the above table for other long-term obligations are based on March 31, 2008 balances because there have been no significant changes as of September 30, 2008. The above table excludes unresolved related earn-out payments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

(Amounts in thousands)

Foreign Currency Exchange Risk

We are exposed to a certain level of foreign currency exchange risk. We are exposed to foreign currency transaction and translation losses, which might result from adverse fluctuations in the value of the Euro, Hong Kong dollar, Swiss franc, Japanese yen, and Chinese RMB.

Our products are manufactured and marketed worldwide. A substantial portion of our revenues are priced in U.S. dollars. Most of our costs and expenses are priced in U.S. dollars, with the remaining priced in Chinese RMB, Euros, Swiss francs and Japanese yen. Accordingly, the competitiveness of our products relative to products produced locally (in foreign markets) may be affected by the performance of the U.S. dollar compared with that of our foreign customers' currencies. Geographic information, excluding discontinued operations, for revenues based on country from which invoiced, and long-lived assets based on country of location, which includes property, plant and equipment, but excludes intangible assets and goodwill, net of related depreciation and amortization follows:

	For the three months ended September 30,		For the six months ended September 30,	
	2008	2007	2008	2007
Net Sales:				
United States	$ 26,005	$ 28,030	$ 51,005	$ 55,337
France	7,509	6,446	15,315	12,696
Germany	4,642	5,110	9,484	9,360
Ireland	3,466	3,353	6,989	6,499
Switzerland	4,196	-	8,344	-
China	13,070	13,523	26,749	25,721
Total:	$ 58,888	$ 56,462	$ 117,886	$ 109,613

	September 30, 2008	March 31, 2008
Long Lived Assets:		
United States	$ 7,643	$ 6,624
France	6,269	6,808
Germany	2,593	2,817
Ireland	3,806	4,263
Switzerland	2,308	2,418
China	20,770	17,785
Total:	$ 43,389	$ 40,715

The RMB appreciated by approximately 3.4% during the first six months of fiscal 2009, and during fiscal 2008, 2007 and 2006, the RMB appreciated approximately 9%, 4% and 3%, respectively. The Chinese government no longer pegs the RMB to the U.S. dollar, but has a currency policy letting the RMB trade in a narrow band against a basket of currencies. The Company has more expenses in RMB than sales (short RMB position), and as such, when the U.S. dollar weakens relative to the RMB, our operating profits decrease. Based on our net exposure of RMB to U.S. dollars for the fiscal year ended March 31, 2008 and forecast information for fiscal 2009, we estimate a negative operating income impact of approximately $186 for every 1% appreciation in RMB against the U.S. dollar (assuming no price increases passed to customers, and no associated cost increases or currency hedging). We continue to consider various alternatives to hedge this exposure, and as described below, during the second quart of fiscal 2009, the Company entered into a number of forward contracts in an attempt to hedge the Company's short RMB position. Additionally, we continue to attempt to manage our RMB exposure to changes in foreign currency exchange through, among other things, pricing and monitoring balance sheet exposures for payables and receivables.

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

The Company's French and Germany subsidiaries have more sales in Euro than expenses in Euro and the Company's Swiss subsidiary has more expenses in Swiss franc than sales, and as such, if the U.S. dollar weakens relative to the Euro and Swiss franc, our operating profits increase in France and Germany but decline in Switzerland. Based on the net exposures of Euros and Swiss francs to U.S. dollars for the fiscal year ended March 31, 2008, we estimate a positive operating income impact of $42 and a negative income impact of $30 for every 1% appreciation in Euro and Swiss franc, respectively, relative to the U.S. dollar (assuming no price increases passed to customers, and associated cost increases or currency hedging).

The Company has a number of foreign currency exchange contracts in Europe and Asia in an attempt to hedge the Company’s exposure to the Euro and RMB. The Euro/U.S. dollar and RMB/U.S. dollar currency contracts have notional amounts totaling $3,790 and $20,000, respectively, with exercise dates through August 31, 2009 at an average exchange rate of $1.43 (Euro to U.S. dollar conversion rate) and $0.148 (RMB to U.S. dollar conversion rate). Since these derivatives are not designated as hedges under SFAS No. 133, changes in their fair value are recorded in earnings, not in other comprehensive income. As of September 30, 2008 and March 31, 2008, the fair value of these contracts was an asset of $2 and $34, respectively. The fair value of our RMB currency contracts and our results of operations will be adversely affected by a decrease in value of the RMB relative to the U.S. dollar. For example, based on the $20,000 notional amount of these contracts outstanding at September 30, 2008 and current pricing of forward exchange rates of the RMB relative to the U.S. dollar, a 10% depreciation of the RMB would increase foreign currency expense and decrease our pre tax profitability by $20.

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

Under our term and revolving credit facilities, we are exposed to a certain level of interest rate risk. Interest on the principal amount of our borrowings under our revolving credit facility accrues at a rate based on either a LIBOR rate plus a LIBOR margin or at an Indexed (prime based) Rate plus an Index Margin. The LIBOR or Index Rate is at our election. Our results will be adversely affected by any increase in interest rates. For example, based on the $69,214 of total debt outstanding under these facilities at September 30, 2008, an annual interest rate increase of 100 basis points would increase interest expense and decrease our pre tax profitability by $692. We do not currently hedge this interest rate exposure.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer with the participation of management evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2008. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2008, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

(b) Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended September 30, 2008, management did not identify any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except for that relating to the material weakness reported in the Company's Annual Report on Form 10-K for the year ended March 31, 2008. Management identified, as of March 31, 2008, a material weakness in our internal control over financial reporting as follows:

The Company's financial reporting personnel did not properly interpret the provisions of SFAS No. 52, *Foreign Currency Translation*, as it relates to foreign currency transaction gains and losses to be excluded from the determination of net income. As a result, the Company's internal control over financial reporting policies and procedures relating to intercompany notes were not designed to properly record foreign currency exchange transaction gains and losses on intercompany notes that were to be paid in the foreseeable future. This deficiency represented a material weakness in our internal control over financial reporting and resulted in a material error in the Company's preliminary fourth fiscal quarter and annual 2008 consolidated financial statements. The material error was corrected in the Company's final fourth fiscal quarter and annual 2008 consolidated financial statements.

During the fiscal quarter ended September 30, 2008, the Company, with the concurrence of the Company's Audit Committee, implemented the following changes to the Company's internal control over financial reporting: Management reviews and assesses all significant intercompany transactions to ensure proper accounting of foreign currency exchange transaction gains and losses in accordance with the applicable accounting interpretations under the guidelines established under SFAS No.52, *Foreign Currency Translation.*

Management's evaluation of our controls and procedures as of September 30, 2008 excluded the evaluation of internal controls for the Company's joint venture in Japan, Nikisso-THERM ("NT"), and the Company's recent acquisition of Intersema. NT is an entity consolidated pursuant to FIN 46R. The Company does not have the ability to dictate or modify the controls of NT, and the Company does not have the ability, in practice, to assess those controls. The Company continues to work on the integration of Intersema into the Company's enterprise resource planning platform and management reporting/analysis information systems. At September 30, 2008, NT and Intersema represented $3,807 and $12,027 in total assets, excluding goodwill and intangible assets resulting from the Intersema acquisition and $2,054 and $8,344 in net sales, respectively.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Pending Matters: From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. The Company currently is not aware of any legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's business, financial condition, or operating results.

ITEM 1A. RISK FACTORS

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended March 31, 2008 describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our results of operations and our financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our Annual report on Form 10-K for the year ended March 31, 2008.

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

(a) The annual meeting of Shareholders of Measurement Specialties, Inc. was held on September 16, 2008.

(b) All director nominees were elected.

(c) The following matters were voted upon at the meeting of shareholders and the votes cast with respect to such matters were as follows:

	Votes Received For	Votes Withheld
Election of Directors:		
Kenneth E. Thompson	11,403,119	676,979
Morton L. Topfer	11,403,119	676,979

	Votes Received For	Votes Against	Votes Withheld	Broker Non-Votes
Approval of the Measurement Specialties, Inc. 2008 Equity Incentive Plan.	8,889,594	1,466,002	13,601	1,710,901
Ratification of appointment of independent public accountants, KPMG LLP, for the fiscal year ending March 31, 2009.	12,020,490	58,461	1,147	-

ITEM 6. EXHIBITS

See Exhibit Index.

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.

	Measurement Specialties, Inc. (Registrant)	
Date: November 5, 2008	By:	/s/ Frank D. Guidone Frank D. Guidone President, Chief Executive Officer (Principal Executive Officer)
Date: November 5, 2008	By:	/s/ Mark Thomson Mark Thomson Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
10.1#	Measurement Specialties, Inc. 2008 Equity Incentive Plan
31.1	Certification of Frank D. Guidone required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of Mark Thomson required by Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of Frank D. Guidone and Mark Thomson required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
#	Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on September 19, 2008 and incorporated herein by reference

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Telesp Participações, S.A.	542	–	131	69	–	(105)	(7)	630
Brasilcel (participaciones)	885	4,304	224	258	–	(171)	6	5,506
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	23	–	2	–	–	(3)	–	22
Iberbanda, S.A.	6	–	(4)	–	–	–	–	2
Colombia Telecomunicaciones, S.A., ESP	–	–	(540)	–	–	–	540	–
Other	18	6	1	3	(3)	(4)	(5)	16
Total	2,540	4,310	(95)	390	(3)	(440)	530	7,232

2012

In 2012, “Disposal of investments and inclusion of companies” reflects the effect of the public offering of shares in Telefónica Deutschland Holding, A.G. This share offering, which totalled 23.17% of capital, entailed non-controlling interests of 2,043 million euros. The heading also includes the impact of the corporate reorganization agreement in the fixed and mobile businesses in Colombia, with an impact of 116 million euros (see Note 2).

Also noteworthy were the dividends declared in the year by Telefónica Czech Republic, a.s. and Telefónica Brasil, S.A.

2011

The movement in 2011 includes the exchange of Telesp shares for Vivo Participações shares, which resulted in a net decrease of 661 million euros (see Note 5), included under “Other movements.”

“Acquisitions of non-controlling interests and exclusion of companies” includes the impact of the tender offer for the voting shares of Vivo Participações, S.A. held by non-controlling interests representing, approximately, 3.8% of its capital stock. After its execution, Telefónica acquired an additional 2.7% of the Brazilian company’s capital stock for 539 million euros, for a total stake of 62.3% (Note 5).

Also noteworthy were the dividends declared in the year by Telefónica Czech Republic, a.s. and Telefónica Brasil, S.A.

“Other movements” includes the impact of the agreement signed with the holders of non-controlling interests in Colombia Telecomunicaciones, S.A., ESP (see Note 3.r).

2010

As disclosed in Note 5, the Group availed itself of the option to measure the non-controlling interests of Vivo Participações, S.A. at fair value at the date of acquisition (see Note 3.c) in the amount of 5,290 million euros, which has resulted in an increase in non-controlling interests of 4,304 million euros, net of the amount of the previously existing non-controlling interests.

Similarly, the activity in 2010 reflected the allocation to non-controlling interests of the losses incurred by Colombia Telecomunicaciones, S.A., ESP, as described in Note 17, in the amount of 414 million euros.

“Other movements” includes the impact of the agreement signed with the holders of non-controlling interests in Colombia Telecomunicaciones, S.A., ESP (see Note 3.r).

Also noteworthy was the impact of the dividends paid during that year by Brasilcel, N.V., Telefónica Czech Republic, a.s. and Telesp Participações, S.A.

Table of Contents

Note 13. Financial assets and liabilities

1.- Financial assets

The breakdown of financial assets of the Telefónica Group at December 31, 2012 and 2011 is as follows:

December 31, 2012

Millions of euros	Fair value through profit or loss: Held for trading	Fair value through profit or loss: Fair value option	Available-for-sale	Hedges	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Other directly observable market inputs)	Measurement hierarchy: Level 3 (Inputs not based on observable market data)	Held-to-maturity investments	Rest of financial assets at amortized cost	Total carrying amount	Total fair value
Non-current financial assets	2,072	424	1,093	2,145	791	4,943	–	164	3,441	9,339	8,961
Investments	–	–	586	–	498	79	9	–	–	586	586
Long-term credits	–	424	516	4	231	713	–	68	1,928	2,940	2,468
Deposits and guarantees	–	–	–	–	–	–	–	96	1,890	1,986	1,694
Derivative instruments	2,072	–	–	2,141	62	4,151	–	–	–	4,213	4,213
Impairment losses	–	–	(9)	–	–	–	(9)	–	(377)	(386)	–
Current financial assets	462	133	61	89	313	415	17	720	10,254	11,719	11,647
Financial investments	462	133	61	89	313	415	17	720	407	1,872	1,800
Cash and cash equivalents	–	–	–	–	–	–	–	–	9,847	9,847	9,847
Total financial assets	2,534	557	1,154	2,234	1,104	5,358	17	884	13,695	21,058	20,608

Table of Contents

2012 Consolidated Financial Statements

December 31, 2011

	Fair value through profit or loss				Measurement hierarchy						
Millions of euros	Held for trading	Fair value option	Available-for-sale	Hedges	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Held-to-maturity investments	Rest of financial assets at amortized cost	Total carrying amount	Total fair value
Non-current financial assets	1,574	273	1,310	2,720	663	5,213	1	3	2,798	8,678	8,673
Investments	–	–	680	–	588	91	1	–	–	680	680
Long-term credits	–	273	630	–	36	867	–	3	1,322	2,228	2,223
Deposits and guarantees	–	–	–	–	–	–	–	–	1,875	1,875	1,476
Derivative instruments	1,574	–	–	2,720	39	4,255	–	–	–	4,294	4,294
Impairment losses	–	–	–	–	–	–	–	–	(399)	(399)	–
Current financial assets	165	171	518	225	498	537	44	657	5,024	6,760	6,760
Financial investments	165	171	518	225	498	537	44	657	889	2,625	2,625
Cash and cash equivalents	–	–	–	–	–	–	–	–	4,135	4,135	4,135
Total financial assets	1,739	444	1,828	2,945	1,161	5,750	45	660	7,822	15,438	15,433

The calculation of the fair values of the Telefónica Group's debt instruments required an estimate, for each currency and counterparty, of a credit spread curve using the prices of the Group's bonds and credit derivatives.

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market.

Table of Contents

a) Non-current financial assets

The movement in items composing "Non-current financial assets" and the related impairment allowances at December 31, 2012 and 2011 are as follows:

Millions of euros	Investments	Long-term credits	Deposits and guarantees	Derivative financial assets	Impairment losses	Total
Balance at 12/31/10	597	2,938	1,680	2,566	(375)	7,406
Acquisitions	–	936	425	224	(11)	1,574
Disposals	(12)	(873)	(207)	–	1	(1,091)
Translation differences	(1)	(45)	(53)	34	1	(64)
Fair value adjustments	(160)	18	2	1,721	–	1,581
Transfers	256	(746)	28	(251)	(15)	(728)
Balance at 12/31/11	680	2,228	1,875	4,294	(399)	8,678
Acquisitions	91	982	454	395	12	1,934
Disposals	(139)	(667)	(185)	(24)	–	(1,015)
Exclusions of companies	–	70	(38)	–	4	36
Translation differences	2	(33)	(173)	39	(4)	(169)
Fair value adjustments	(48)	6	17	(172)	1	(196)
Transfers	–	354	36	(319)	–	71
Balance at 12/31/12	586	2,940	1,986	4,213	(386)	9,339

"Investments" includes the fair value of investments in companies where Telefónica does not exercise significant control and for which there is no specific disposal plan for the short term (see Note 3.i).

Among these is the Telefónica Group's shareholding in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) since 2000 of 317 million euros (326 million euros at December 31, 2011), representing 0.81% of its share capital. In 2011, the Telefónica Group wrote down the value of its investment in BBVA by 80 million euros.

Acquisitions in 2012 primarily relate to the investment in Amerigó (the Group's venture capital fund for investment in innovation projects), for 40 million euros.

In 2011, the direct stake in Portugal Telecom and the shares assigned to equity swaps contracts arranged in 2010 were transferred to "Equity investments." The amount transferred was 256 million euros.

In 2012, economic exposure to Portugal Telecom was reduced via partial disposals, which generated a loss of 5 million euros. In 2011, gains on sales amounted to 184 million euros (see Note 19).

Disposals in 2012 also include the full divestment of the stakes in Zon Multimedia and in Amper.

Given the poor situation of financial markets, at year-end the Group assessed the securities in its portfolio of listed available-for-sale assets individually for impairment. The analysis did not uncover the need to recognize any significant additional impairment losses.

"Long-term credits" includes mainly the investment of the net level premium reserves of the Group's insurance companies, primarily in fixed-income securities, amounting to 1,055 million euros and 894 million euros at December 31, 2012 and 2011, respectively, and long-term prepayments of 154 million euros and 149 million euros at December 31, 2012 and 2011, respectively.

Additions to "Long-term credits" reflect the 208 million euros increase in the loan extended to Telco in 2011, for 600 million euros. At December 31, 2012, the total loan amount was 808 million euros (see Note 9). The amount drawn down is recognized as non-current pursuant to expectations of recovery at the reporting date.

"Deposits and guarantees" consists mainly of balances to cover guarantees and stood at 1,986 million euros at December 31, 2012 (1,875 million euros at December 31, 2011). These deposits will decrease as the respective obligations they guarantee are reduced.

"Derivative financial assets" includes the fair value of economic hedges whose maturity is 12 months or greater of assets or liabilities in the consolidated statement of financial position, as part of the Group's financial risk-hedging strategy (see Note 16).

b) Current financial assets

This heading in the accompanying consolidated statement of financial position at December 31, 2012 and 2011 primarily includes the following items:

- Investments in financial instruments recognized at fair value to cover commitments undertaken by the Group's insurance companies, amounting to 391 million euros at December 31, 2012 (171 million euros at December 31, 2011). The maturity schedule for these financial assets is established on the basis of payment projections for the commitments.

- Derivative financial assets with a short-term maturity or not used to hedge non-current items in the consolidated statement of financial position, which amounted to 316 million euros in 2012 (385 million euros in 2011). The variation in the balance between the two years was due to exchange- and interest-rate fluctuations (see Note 16).

- Short-term deposits and guarantees amounting to 95 million euros at December 31, 2012 (87 million euros at December 31, 2011).

- Financing extended to Telco, S.p.A. in 2011, for 600 million euros, which was refinanced in 2012 and transferred to the non-current (see Note 9).

- Current investments of cash surpluses which, given their characteristics, have not been classified as "Cash and cash equivalents."

Current financial assets that are highly liquid and have maturity periods of three months or less from the date contracted , and present an insignificant risk of value changes, are recorded under "Cash and cash equivalents" on the accompanying consolidated statement of financial position.

2.- Financial liabilities

The breakdown of financial liabilities at December 31, 2012 and the corresponding maturities schedule is as follows:

Millions of euros

	Current		Non-current						
Maturity	2013 (*)	2014	2015 (*)	2016	2017	Subsequent years	Non-current total	Total
Debentures and bonds	6,357	4,831	4,312	6,596	4,876	17,170	37,785	44,142
Promissory notes & commercial paper	1,128	–	–	–	–	–	–	1,128
Other marketable debt securities	–	–	–	–	–	59	59	59
Total Issues	7,485	4,831	4,312	6,596	4,876	17,229	37,844	45,329
Loans and other payables	2,569	2,824	6,750	2,925	1,050	2,017	15,566	18,135
Other financial liabilities (Note 16)	191	195	357	253	367	2,026	3,198	3,389
TOTAL	10,245	7,850	11,419	9,774	6,293	21,272	56,608	66,853

(*) The figures of 2013 and 2015 include 500 million euros of expected early redemptions for each of the years, based on potential improvement of financial market conditions.

- The estimate of future interest that would accrue on these financial liabilities held by the Group at December 31, 2012 is as follows: 2,531 million euros in 2013, 2,381 million euros in 2014, 2,122 million euros in 2015, 1,842 million euros in 2016, 1,537 million euros in 2017 and 8,088 million euros in years after 2017. For floating rate financing, the Group mainly estimates future interest using the forward curve of the various currencies at December 31, 2012.

- The amounts shown in this table take into account the fair value of derivatives classified as financial liabilities (i.e., those with a negative mark-to-market) and exclude the fair value of derivatives classified as current financial assets, for 316 million euros, and those classified as non-current, for 4,213 million euros (i.e., those with a positive mark-to-market).

Table of Contents

2012 Consolidated Financial Statements

The composition of these financial liabilities, by category, at December 31, 2012 and 2011 is as follows:

December 31, 2012

Millions of euros	Fair value through profit or loss: Held for trading	Fair value through profit or loss: Fair value option	Hedges	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Other directly observable market inputs)	Measurement hierarchy: Level 3 (Inputs not based on observable market data)	Liabilities at amortized cost	Total carrying amount	Total fair value
Issues	–	–	–	–	–	–	45,329	45,329	49,956
Loans and other payables	1,774	–	1,615	113	3,276	–	18,135	21,524	21,874
Total financial liabilities	1,774	–	1,615	113	3,276	–	63,464	66,853	71,830

December 31, 2011

Millions of euros	Fair value through profit or loss: Held for trading	Fair value through profit or loss: Fair value option	Hedges	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Other directly observable market inputs)	Measurement hierarchy: Level 3 (Inputs not based on observable market data)	Liabilities at amortized cost	Total carrying amount	Total fair value
Issues	–	–	–	–	–	–	42,239	42,239	42,203
Loans and other payables	1,246	–	1,203	78	2,371	–	21,623	24,072	21,961
Total financial liabilities	1,246	–	1,203	78	2,371	–	63,862	66,311	64,164

The calculation of the fair values of the Telefónica Group’s debt instruments required an estimate, for each currency and subsidiary, of the credit spread curve using the prices of the Group’s bonds and credit derivatives.

At December 31, 2012, some of the financing arranged by Telefónica Group companies in Latin America (Brazil, Colombia and Chile) was subject to compliance with certain financial covenants, which amount to approximately 4% of the Telefónica Group’s gross debt. To date, these covenants are being met. Due to the absence of cross-defaults, breach of the covenants would not affect the debt at the holding company level.

Part of the amount owed by Telefónica Group includes restatements to amortized cost at December 31, 2012 and 2011 as a result of fair value interest rate and exchange rate hedges.

Table of Contents

2012 Consolidated Financial Statements

a) Issues

The movement in issues of debentures, bonds and other marketable debt securities in 2012 and 2011 is as follows:

Millions of euros	Debenture issues	Short-term promissory notes and commercial paper	Other non-Current Marketable debt securities	Total
Balance at 12/31/10	35,993	1,728	1,971	39,692
New issues	4,583	166	–	4,749
Redemptions, conversions and exchanges	(3,235)	(66)	–	(3,301)
Changes in consolidation scope	–	–	–	–
Revaluation and other movements	1,080	5	14	1,099
Balance at 12/31/11	38,421	1,833	1,985	42,239
New issues	8,090	284	–	8,374
Redemptions, conversions and exchanges	(2,376)	(996)	(1,941)	(5,313)
Changes in consolidation scope	–	–	–	–
Revaluation and other movements	7	7	15	29
Balance at 12/31/12	44,142	1,128	59	45,329

Bonds and other marketable debt securities

At December 31, 2012, the nominal amount of outstanding debentures and bonds issues was 42,411 million euros (35,958 million euros at December, 31, 2011). Appendix II presents the characteristics of all outstanding debentures and bond issues at year-end 2012 and 2011, as well as the significant issues made in each year.

During 2012, Telefónica, S.A. has repurchased bonds issued by Telefónica Emisiones S.A.U. and Telefonica Europe, B.V. up to 606 million euros (159 million euros accumulated at the end of 2011).

Telefónica, S.A. has a full and unconditional guarantee on issues made by Telefónica Emisiones, S.A.U., Telefónica Finanzas México, S.A. de C.V. and Telefonica Europe, B.V., all of which are, directly or indirectly, wholly-owned subsidiaries of Telefónica, S.A.

Short-term promissory notes and commercial paper

At December 31, 2012, Telefonica Europe, B.V., had a program for issuance of commercial paper, guaranteed by Telefónica, S.A., for up to 2,000 million euros. The outstanding balance of commercial paper issued under this program at December 31, 2012 was 768 million euros, issued at an average interest rate of 0.78% for 2012 (1,596 million issued in 2011 at an average rate of 1.50%).

At December 31, 2012, Telefónica, S.A. had a corporate promissory note program for 500 million euros, which can be increased to 2,000 million euros, with an outstanding balance at that date of 331 million euros (87 million euros at December 31, 2011).

On December 13, 2010, Telefónica Móviles, S.A. (Peru) registered a commercial paper program for up to 150 million US dollars (approximately 114 million euros). The outstanding balance of commercial paper issued under this program at December 31, 2012 was 32 million US dollars, equivalent to approximately 24 million euros (13 million

US dollars at December 31, 2011).

On December 20, 2010, Telefónica de Perú, S.A.A. registered a commercial paper program for an equivalent of up to 150 million US dollars (approximately 114 million euros). At December 31, 2012, no amount had been drawn under this program.

Other long-term marketable debt securities

On October 31, 2012, an offer to purchase the preferred securities of Telefónica Finance USA, LLC. was launched. Holders accepting such offer will receive, concurrently and in connection with, Telefónica's ordinary shares and they will subscribe new debt securities of Telefónica. As a result of this offer, on November 29, 2012, the Group purchased 1,941,235 preferred securities (representing 97.06% of total). The remaining 58,765 preferred securities are reflected in this caption (at December 31, 2012 the outstanding balance was 59 million euros). The securities accrue interest at Euribor at 3 months, plus a 4% spread (effective annual rate) payable quarterly.

b) Interest-bearing debt

The average interest rate on outstanding loans and other payables at December 31, 2012 was 4.04% (4.04% in 2011). This percentage does not include the impact of hedges arranged by the Group.

The main financing transactions included under "Interest-bearing debt" outstanding at December 31, 2012 and 2011 and their nominal amounts are provided in Appendix IV.

Interest-bearing debt arranged or repaid in 2012 and 2011 mainly includes the following:

- In accordance with the agreed maturity schedule, on December 14, 2012 tranche D of Telefonica Europe, B.V.'s syndicated loan arranged on October 31, 2005 fell due. The outstanding balance upon maturity was 2,658 million euros.

- On December 12, 2012, the syndicated arranged between Atento Inversiones y Teleservicios, S.A.U. and its subsidiaries Atento, N.V. and Atento Teleservicios España, S.A.U. on March 29, 2011 was repaid in advance and fully cancelled. The outstanding balance upon maturity was 207 million euros.

- In September 2012, Colombia Telecomunicaciones, S.A. ESP refinanced part of its debt, repaying, inter alia, the loan arranged in 2009 for 310,000 million Colombian pesos (equivalent to 123 million euros) and entering into new bilateral arrangements, including a 600,000 million pesos loan (257 million euros) and a 318,475 million pesos loan (137 million euros), both maturing in 2019. These arrangements have improved the company's average debt maturity.

    - On September 13, 2012, Vivo, S.A. drew down 798 million reais (approximately 319 million euros) of the 3,031 million reais loan arranged with BNDES on September 20, 2011. At December 31, 2012 the principal on this loan stood at 1,802 million reais (approximately 668 million euros).

- On August 28, 2012, Telefonica Europe, B.V. signed a financing agreement with China Development Bank (CDB) and Industrial and Commercial Bank of China (IDBC) amounting to 1,200 million US dollars (approximately 910 million euros), maturing in 2023. No amounts had been drawn down on this loan at December 31, 2012.

- On July 30, 2012, Telefónica Czech Republic, a.s.'s 115 million euros loan, arranged in 1997, fell due. On the same date, the company secured a bridge loan of 2,100 million Czech crowns (approximately 83 million euros), maturing in October 2012. Subsequently, on September 27, 2012, the company signed a syndicated loan of 3,000 million crowns (119 million euros), maturing on September 27, 2016. Funds from this loan were partially used to repay the bridge loan upon its maturity.

- On May 15, 2012, Telefónica Móviles Colombia, S.A. repaid, in advance, the financing received from the International Development Bank (IDB) on December 20, 2007. The outstanding balance at that date amounted to 273 million US dollars (equivalent to 210 million euros).

- In April 2012, the Colombian government and Colombia Telecomunicaciones, S.A. ESP (a company 52% owned by the Telefónica Group and 48% by the Colombian government) signed a definitive agreement to restructure their wireline and wireless businesses in Colombia. These agreements include, inter alia, the assumption by the Colombian government of the 48% of the payment obligations not yet due of Colombia

Telecomunicaciones, S.A. ESP to PARAPAT (the consortium which owns the telecommunications assets and manages the pension funds for the entities that comprise the National Telecommunications Operator). Pursuant to these agreements, the net financial debt which is fully consolidated in the Telefónica Group's financial statements decreased by approximately 1,499 million euros (Note 2).

- On March 2, 2012, a deal was signed to refinance the two tranches maturing on December 14, 2012 (Tranche D) and December 13, 2013 (Tranche E) of the syndicated loan with Telefonica Europe, B.V., totaling up to 18,500 million pounds sterling entered into on October 31, 2005. As a result: As a result: (a) Telefonica Europe, B.V. entered into a syndicated loan for 633 million pounds sterling (tranche D1), available as from December 14, 2012 and maturing on December 14, 2015 (this loan was converted to euros on December 14, 2012 and had an outstanding balance of 801 million euros at year-end 2012); (b) Telefónica, S.A. arranged a syndicated loan for 729 million pounds sterling (tranche D2) available as from December 14, 2012 and maturing on December 14, 2015 (this loan was converted to euros on December 14, 2012 and had an outstanding balance of 923 million euros at year-end 2012); (c) Telefonica Europe, B.V. arranged a syndicated loan for 756 million euros (tranche E1) available as from March 2, 2012 and maturing on March 2, 2017, of which no amounts were drawn down in 2012; and a syndicated loan to Telefonica Europe, B.V. of 1,469 million pounds sterling (tranche E2), available as from December 13, 2013 and maturing on March 2, 2017.

- On February 27, 2012, Telefónica, S.A. signed a bilateral loan agreement totaling 200 million euros and maturing on February 27, 2015. At December 31, 2012 this loan was drawn down in full.

  - On January 5, 2012, Telefonica Europe, B.V. signed a financing agreement with China Development Bank (CDB) for 375 million US dollars (approximately 284 million euros) maturing in 2022. This loan was fully drawn down at December 31, 2012.

- On December 12, 2011, the 300 million euros loan facility arranged between Telefónica Finanzas, S.A.U. and the European Investment Bank (EIB) matured as scheduled. This loan was guaranteed by Telefónica, S.A.

- On October 31, 2011, Telefónica Brasil, S.A. took out a loan with Banco do Brasil (BNB) for 150 million US dollars (equivalent to approximately 114 million euros).

- On June 28, 2011, the 6,000 million euros syndicated loan facility arranged by Telefónica, S.A. on June 28, 2005 matured as scheduled. The outstanding balance upon maturity was 300 million euros.

- On June 21, 2011, the syndicated loan facility arranged by Telefónica Móviles Chile, S.A. on October 28, 2005 for 150 million US dollars (equivalent to 116 million euros) matured as scheduled.

- On May 12, 2011 Telefónica, S.A. signed an amendment to the syndicated loan agreement entered into on July 28, 2010 whereby it was agreed that, in exchange for the additional payment of certain fees and an upward adjustment to applicable interest rates, of the 5,000 million euros that were initially set to mature in July 2013, 2,000 million euros would be extended for another year, i.e. until July 2014, and another 2,000 million euros for a further three years, i.e. until July 2016. At December 31, 2012, this syndicated loan had been drawn down by 8,000 million euros (8,000 million euros at December 31, 2011).

- On May 3, 2011, Telefónica, S.A. entered into a long-term credit facility for an aggregate amount of 376 million US dollars at a fixed rate with the guarantee of the Finnish Export Credits Guarantee Board (Finnvera). This credit facility is structured into four tranches: a tranche of 94 million US dollars maturing on January 30, 2020, another of 90 million US dollars maturing on July 30, 2020, a third of 94 million US dollars maturing on January 30, 2021, and a fourth of 98 million US dollars maturing on July 30, 2021. During 2012 the credit facility had been drawn down by 184 million US dollars from first and second tranche and a prepayment of 6 million US dollars was made. At December 31, 2012, the outstanding balance of this credit facility amounted to 178 million US dollars (equivalent to 135 million euros).

- On January 5, 2011, the syndicated loan facility arranged by Telefónica Móviles Chile, S.A. on December 29, 2005 for 180 million dollars (equivalent to 138 million euros) matured as scheduled.

Table of Contents

During 2012, Vivo, S.A. paid the installments foreseen in the repayment schedule for the financing arranged with BNDES on August 9, 2007, for an aggregate amount of 307 million Brazilian reais (equivalent to approximately 123 million euros) and the repayment schedule for the financing arranged by Telefónica Brasil, S.A. with BNDES on October 29, 2007, for an aggregate amount of 407 million Brazilian reais (equivalent to approximately 162 million euros). At December 31, 2012, the outstanding nominal principal on those loans were 562 and 983 million reais (equivalent to approximately 208 and 365 million euros, respectively).

At December 31, 2012, the Telefónica Group had total unused credit facilities from various sources amounting to approximately 11,597 million euros (approximately 10,119 million euros at December 31, 2011).

Loans by currency

The breakdown of loans by currency at December 31, 2012 and 2011, along with the equivalent value of foreign-currency loans in euros, is as follows:

	Outstanding balance (in millions)			
	Currency		Euros	
Currency	12/31/12	12/31/11	12/31/12	12/31/11
Euros	11,681	13,099	11,681	13,099
US dollars	2,432	2,520	1,843	1,947
Brazilian reais	3,524	4,014	1,307	1,545
Argentine pesos	510	764	79	137
Colombian pesos	1,809,200	9,035,173	2,459	3,594
Yen	14,925	14,916	131	149
Chilean peso	76,742	106,284	121	158
New soles	335	853	100	245
Pounds sterling	172	552	211	661
Czech crown	3,019	49	120	2
Other currencies	–	–	83	86
Total Group	N/A	N/A	18,135	21,623

Note 14. Trade and other payables

The composition of “Trade and other payables” is as follows:

Millions of euros	12/31/2012		12/31/2011	
	Non-current	Current	Non-current	Current
Trade payables	–	8,719	–	8,888
Advances received on orders	–	72	–	77
Other payables	1,749	6,247	1,620	6,684
Deferred income	392	1,540	472	1,766
Payable to associates (Note 9)	–	511	–	440
Total	2,141	17,089	2,092	17,855

“Deferred income” principally includes the amount of connection fees not yet recognized in the income statement, customer loyalty programs, and advance payments received on pre-pay contracts.

At December 31, 2012, non-current “Other payables” mainly comprises the deferred portion of the payment for acquiring, in 2010, the spectrum use license in Mexico, for an equivalent of 995 million euros (878 million euros at December 31, 2011).

The detail of current “Other payables” at December 31, 2012 and 2011 is as follows:

Millions of euros	Balance at 12/31/2012	Balance at 12/31/2011
Dividends payable by Group companies	183	241
Payables to suppliers of property, plant and equipment	3,994	4,393
Accrued employee benefits	719	728
Other non-financial non-trade payables	1,351	1,322
Total	6,247	6,684

Information on deferred payments to suppliers of Spanish companies (Third additional provision, "Information requirement" of Law 15/2010 of July 5)

The Telefónica Group’s Spanish companies have adapted their internal processes and payment schedules to the provisions of Law 15/2010, establishing measures against late payment in commercial transactions. Engagement conditions with commercial suppliers in 2012 included payment periods of up to 75 days (85 days in 2011), as laid down in said law.

For reasons of efficiency and in line with general business practice, the Telefónica Group’s companies in Spain have defined payment schedules with suppliers, whereby payments are made on set days. For the main companies, payments are made three times a month. Invoices falling due between two payment days are settled on the following payment date in the schedule.

Payments to Spanish suppliers in 2012 and 2011 surpassing the established legal limit were the result of circumstances or incidents beyond the payment policies, mainly the closing of agreements with suppliers over the delivery of goods or the rendering of services, or occasional processing issues.

Information on contracts entered into after Law 15/2010 took effect that exceed the maximum period established in this law is as follows:

Table of Contents

	2012		2011	
Millions of euros	Amount	%	Amount	%
Payments within allowable period	7,633	95.1	8,361	95.2
Other	395	4.9	425	4.8
Total payments to commercial suppliers	8,028	100.0	8,786	100.0
Weighted average days past due	35		38	
Deferrals at year-end that exceed the limit (*)	28		27	

(*) At the date of authorization for issue of these consolidated financial statements, the Group had processed the outstanding payments, except in cases where an agreement with suppliers was being negotiated.

Note 15. Provisions

The amounts of provisions in 2012 and 2011 are as follows:

	12/31/2012			12/31/2011		
Millions of euros	Current	Non-current	Total	Current	Non-current	Total
Employee benefits:	913	4,410	5,323	807	4,999	5,806
- Termination plans	861	3,290	4,151	790	3,908	4,698
- Post-employment defined benefit plans	–	894	894	–	799	799
- Other benefits	52	226	278	17	292	309
Other provisions	738	2,654	3,392	696	2,173	2,869
Total	1,651	7,064	8,715	1,503	7,172	8,675

Employee benefits

a) Termination plans

In the last few years, the Telefónica Group has carried out early retirement plans in order to adapt its cost structure to the prevailing environment in the markets where it operates, making certain strategic decisions relating to its size and organization.

On July 29, 2003, the Ministry of Labor and Social Affairs approved a labor force reduction plan for Telefónica de España, S.A.U. through various voluntary, universal and non-discriminatory programs, which were announced on July 30, 2003. The plan concluded on December 31, 2007, with 13,870 employees taking part for a total cost of 3,916 million euros. Provisions recorded for this plan at December 31, 2012 and 2011 amounted to 1,037 and 1,404 million euros, respectively.

On July 14, 2011, the Ministry of Labor and Social Affairs approved a new labor force reduction plan for Telefónica de España, S.A.U. that included up to 6,500 net job losses in the period from 2011 to 2013, through various voluntary, universal and non-discriminatory programs.

In 2011, the Group recognized the estimated cost of payments for the program using updated and actuarial criteria based on a high quality market interest rate curve, in the amount of 2,671 million euros. This amount was included under “Personnel expenses” in the consolidated income statement (see Note 2).

In 2012, the period for adhering to the plan was closed, with a total of 6,830 requests being received (2,359 requests in 2011). At December 31, 2012, the provision for this plan amounted to 2,614 million euros (2,727 million euros at December 31, 2011).

Furthermore, the Group had recorded provisions totalling 500 million euros (567 million euros at December 31, 2011) for other planned adjustments to the workforce and plans prior to 2003.

The companies bound by these commitments calculated provisions required at 2012 and 2011 year-end using actuarial assumptions pursuant to current legislation, including the PERM/F- 2000 C mortality tables and a variable interest rate based on high quality market yield curves.

F-68

Table of Contents

The movement in provisions for post-employment plans in 2012 and 2011 is as follows:

Millions of euros	Total
Provisions for post employment plans at 12/31/10	2,756
Additions	2,787
Retirements/amount applied	(936)
Transfers	(29)
Translation differences and accretion	120
Provisions for post employment plans at 12/31/11	4,698
Additions	36
Retirements/amount applied	(841)
Transfers	31
Exclusion of companies	(1)
Translation differences and accretion	228
Provisions for post employment plans at 12/31/12	4,151

The discount rate used for these provisions at December 31, 2012, was 0.85%, with average length of the plans of 3.87 years.

b) Post-employment defined benefit plans

The Group has a number of defined-benefit plans in the countries where it operates. The following tables present the main data of these plans:

12/31/2012

	Spain		Rest of Europe		Latin America		
Millions of euros	ITP	Survival	UK	Germany	Brazil	Other	Total
Obligation	395	259	1,139	81	298	85	2,257
Assets	–	–	(1,191)	(76)	(225)	(6)	(1,498)
Net provision before asset ceiling	395	259	(52)	5	73	79	759
Asset ceiling	–	–	–	–	54	–	54
Net provision	395	259	9	7	145	79	894
Net assets	–	–	61	2	18	–	81

12/31/2011

	Spain		Rest of Europe		Latin America		
Millions of euros	ITP	Survival	UK	Germany	Brazil	Other	Total
Obligation	412	242	976	55	298	18	2,001
Assets	–	–	(971)	(79)	(235)	(7)	(1,292)
Net provision before asset ceiling	412	242	5	(24)	63	11	709
Asset ceiling	–	–	–	17	51	–	68
Net provision	412	242	5	2	127	11	799
Net assets	–	–	–	9	13	–	22

F-69

Table of Contents

The movement in the present value of obligations in 2012 and 2011 is as follows:

	Spain		Rest of Europe		Latin America		
Millions of euros	ITP	Survival	UK	Germany	Brazil	Other	Total
Present value of obligation at 12/31/10	424	208	918	57	272	13	1,892
Translation differences	–	–	29	–	(26)	1	4
Current service cost	–	9	25	3	4	1	42
Past service cost	–	–	–	–	–	–	–
Interest cost	13	7	51	2	26	2	101
Actuarial losses and gains	23	26	(27)	(7)	38	2	55
Benefits paid	(48)	(8)	(20)	–	(16)	–	(92)
Plan curtailments	–	–	–	–	–	(1)	(1)
Present value of obligation at 12/31/11	412	242	976	55	298	18	2,001
Translation differences	–	–	23	–	(31)	(1)	(9)
Current service cost	–	3	25	3	4	53	88
Past service cost	–	–	3	–	–	29	32
Interest cost	9	6	49	3	25	3	95
Actuarial losses and gains	19	18	174	21	15	2	249
Benefits paid	(45)	(10)	(18)	(1)	(13)	(15)	(102)
Plan curtailments	–	–	(93)	–	–	(4)	(97)
Present value of obligation at 12/31/12	395	259	1,139	81	298	85	2,257

Movements in the fair value of plan assets in 2012 and 2011 are as follows:

	Rest of Europe		Latin America		
Millions of euros	UK	Germany	Brazil	Other	Total
Fair value of plan assets at 12/31/10	838	63	250	5	1,156
Translation differences	29	–	(21)	1	9
Expected return on plan assets	48	3	23	–	74
Actuarial losses and gains	(13)	(3)	(5)	–	(21)
Company contributions	89	16	3	1	109
Employee contributions	–	–	–	–	–
Benefits paid	(20)	–	(15)	–	(35)
Fair value of plan assets at 12/31/11	971	79	235	7	1,292
Translation differences	23	–	(22)	–	1
Expected return on plan assets	53	4	25	–	82
Actuarial losses and gains	81	(6)	(4)	–	71
Company contributions	81	–	2	–	83
Employee contributions	–	–	–	–	–
Benefits paid	(18)	(1)	(11)	(1)	(31)
Fair value of plan assets at 12/31/12	1,191	76	225	6	1,498

2012 Consolidated Financial Statements

The amounts of actuarial gains and losses of these plans recognized directly in equity in accordance with the asset ceilings of these plans in 2012, 2011 and 2010, before non-controlling interests and before the related tax effect, are as follows:

Millions of euros	2012	2011	2010
Spain	(38)	(48)	(17)
Rest of Europe	(97)	14	(6)
Latin America	(19)	(51)	(71)
Total	(154)	(85)	(94)

The Group's principal defined-benefit plans are:

Plans in Spain:

a. ITP: Telefónica Spain reached an agreement with its employees whereby it recognized supplementary pension payments for employees who had retired as of June 30, 1992, equal to the difference between the pension payable by the social security system and that which would be paid to them by ITP (Institución Telefónica de Previsión). Once the aforementioned supplementary pension payments had been quantified, they became fixed, lifelong and non-updateable and sixty percent (60%) of the payments are transferable to the surviving spouse, recognized as such as of June 30, 1992, and to underage children.

The amount for this provision totaled 395 million euros at December 31, 2012 (412 million euros at December 31, 2011).

b. Survival: serving employees who did not join the defined pension plan are still entitled to receive survivorship benefits at the age of 65.

The amount for this provision totaled 259 million euros at December 31, 2012 (242 million euros at December 31, 2011).

These plans do not have associated assets that qualify as "plan assets" under IAS 19.

The main actuarial assumptions used in valuing these plans are as follows:

	Survival		ITP	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Discount rate	0.091%-2.297%	0.787%-2.521%	0.091%-2.297%	0.787%-2.521%
Expected rate of salary increase	2.50%	2.50%	–	–
Mortality tables	PERM/F-2000C Combined with OM77	PERM/F-2000C Combined with OM77	90% PERM 2000C/98% PERF 2000 C	92% PERM 2000C/100% PERF 2000 C

The table below shows the sensitivity of the value of termination and post-employment obligations of Telefónica Group companies in Spain to changes in the discount rate:

+100 bp	-100 bp

Impact on value	Impact on income statement	Impact on value	Impact on income statement
-211	154	177	-122

Variations of less than -100bp are considered for terms of less than five years to prevent negative rates.

A 100bp increase in the discount rate would reduce the value of the liabilities by 211 million euros and have a positive impact on income statement of 154 million euros before tax. However, a 100bp decrease in the discount rate would increase the value of the liabilities by 177 million euros and have a negative impact on income statement of 122 million euros before tax.

The Telefónica Group actively manages this position and has arranged a derivatives portfolio to minimize the impact of changes in the discount rate (see Note 16).

Table of Contents

2012 Consolidated Financial Statements

Plans in the rest of Europe:

The various O2 Group companies consolidated within the Telefónica Group have defined-benefit post-employment plans, covered by qualifying assets.

The number of beneficiaries of these plans at December 31, 2012 and 2011 is as follows:

Employees	2012	2011
UK	4,575	4,590
Germany	6,418	5,979

The main actuarial assumptions used in valuing these plans are as follows:

	12/31/2012				12/31/2011			
	UK		Germany		UK		Germany	
Nominal rate of salary increase	4.2	%	2.6	%	4.0	%	3.5	%
Nominal rate of pension payment increase	3.1	%	2	%	2.9	%	1.0%-4.0	%
Discount rate	4.6	%	4.2	%	4.9	%	5.3	%
Expected inflation	3.2	%	2	%	3.0	%	2	%
Expected return on plan assets								
- Shares	7.0	%	N/A		7.0	%	N/A	
- UK government bonds	-		N/A		-		N/A	
- Other bonds	4.6	%	N/A		4.9	%	N/A	
- Rest of assets	3.2	%	4.2	%	3.0	%	4%-4.25	%
Mortality tables	Pna00mc0.5 underpin		Prf. Klaus Heubeck (RT 2005 G)		Pna00mc0.5 underpin		Prf. Klaus Heubeck (RT 2005 G)	

The estimation of average length for plans in UK and Germany is 20 and 25 years, respectively.

Plans in Latin America:

Subsidiary Telefónica Brazil (formerly Telecomunicações de São Paulo, S.A.) and its subsidiaries had various pension plan, medical insurance and life insurance obligations with employees.

The main actuarial assumptions used in valuing these plans are as follows:

	12/31/2012		12/31/2011	
Discount rate	8.90	%	9.73	%
Nominal rate of salary increase	6.18	%	6.54%-7.20	%
Expected inflation	4.50	%	4.50	%
Cost of health insurance	7.64	%	7.64	%
Expected return on plan assets	8.70	%	11.07%-12.08	%
Mortality tables	AT 2000 M/F		AT 2000 M/F	

In addition, Telefónica Brazil, along with other companies resulting from the privatization of Telebrás (Telecomunicações Brasileiras, S.A.) in 1998, adhered to PBS-A, a non-contribution defined benefit plan managed by Fundação Sistel de Seguridade Social, whose beneficiaries are employees that retired prior to January 31, 2000. At December 31, 2012 net plan assets amounted to 760 million Brazilian reais, equivalent to 282 million euros (668 million Brazilian reais at December 31, 2011, equivalent to 275 million euros). This plan does not have an impact on the consolidated statement of financial position, given that recovery of the assets is not foreseeable.

The valuations used to determine the value of obligations and plan assets, where appropriate, were performed as of December 31, 2012 by external and internal actuaries. The projected unit credit method was used in all cases.

Table of Contents

c) Other benefits

This heading mainly includes the amount recorded by Telefónica Spain related to the accrued portion of long-service bonuses to be awarded to employees after 25 years' service, amounting to 201 million euros at December 31, 2012 (210 million euros at December 31, 2011).

Other provisions

The movement in “Other provisions” in 2012 and 2011 is as follows:

	Millions of euros
Other provisions at December 31, 2010	2,650
Additions	707
Retirements/amount applied	(480)
Transfers	88
Translation differences	(96)
Other provisions at December 31, 2011	2,869
Additions	1,098
Retirements/amount applied	(451)
Transfers	62
Translation differences	(186)
Other provisions at December 31, 2012	3,392

“Other provisions” includes the amount recorded in 2007 in relation to the fine imposed on Telefónica de España, S.A.U. by the EC anti-trust authorities. Taking into account accrued interest, a total provision of 196 million euros was made in this regard (188 million euros at December 31, 2011).

Also included are the provisions for dismantling of assets recognized by Group companies in the amount of 460 million euros (401 million euros at the 2011 year end).

“Other Provisions” also includes the provisions recorded (or used) by the Group companies to cover the risks inherent in the realization of certain assets, the contingencies arising from their respective business activities and the risks arising from commitments and litigation acquired in other transactions, recognized as indicated in Note 3.1.

Given the nature of the risks covered by these provisions, it is not possible to determine a reliable schedule of potential payments, if any.

Note 16. Derivative financial instruments and risk management policies

The Telefónica Group is exposed to various financial market risks as a result of: (i) its ordinary business activity, (ii) debt incurred to finance its business, (iii) its investments in companies, and (iv) other financial instruments related to the above commitments.

The main market risks affecting Group companies are as follows:

Exchange rate risk

Exchange rate risk arises primarily from: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America, but also in the United Kingdom and the Czech Republic), and (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt.

Interest rate risk

Interest rate risk arises primarily in connection with changes in interest rates affecting: (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of long-term liabilities at fixed interest rates.

Share price risk

Share price risk arises primarily from changes in the value of the equity investments (that may be bought, sold or otherwise involved in transactions), from changes in the value of derivatives associated with such investments, from changes in the value of treasury shares and from equity derivatives.

Other risks

The Telefónica Group is also exposed to liquidity risk if a mismatch arises between its financing needs (including operating and financial expense, investment, debt redemptions and dividend commitments) and its sources of finance (including revenues, divestments, credit lines from financial institutions and capital market transactions). The cost of finance could also be affected by movements in the credit spreads (over benchmark rates) demanded by lenders.

Finally, the Telefónica Group is exposed to country risk (which overlaps with market and liquidity risks). This refers to the possible decline in the value of assets, cash flows generated or cash flows returned to the parent company as a result of political, economic or social instability in the countries where the Telefónica Group operates, especially in Latin America.

Risk management

The Telefónica Group actively manages these risks through the use of derivatives (primarily on exchange rates, interest rates and share prices) and by incurring debt in local currencies, where appropriate, with a view to stabilizing cash flows, the income statement and investments. In this way, it attempts to protect the Telefónica Group's solvency, facilitate financial planning and take advantage of investment opportunities.

The Telefónica Group manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt as calculated by them. The Telefónica Group believes that these parameters are more appropriate to understanding its debt position. Net debt and net financial debt take into account the impact of the Group's cash balance and cash equivalents including derivatives positions with a positive value linked to liabilities. Neither net debt nor net financial debt as calculated by the Telefónica Group should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of liquidity.

For a more detailed description on reconciliation of net debt and net financial debt to gross financial debt, see Note 2.

Exchange rate risk

The fundamental objective of the exchange rate risk management policy is that, in event of depreciation in foreign currencies relative to the euro, any potential losses in the value of the cash flows generated by the businesses in such currencies, caused by depreciation in exchange rates of a foreign currency relative to the euro, are offset (to some extent) by savings from the reduction in the euro value of debt denominated in such currencies. The degree of exchange rate hedging employed varies depending on the type of investment.

At December 31, 2012, net debt in Latin American currencies was equivalent to approximately 4,988 million euros. However, the Latin American currencies in which this debt is denominated is not distributed in proportion to the cash flows generated in each currency. The future effectiveness of the strategy described above as a hedge of exchange rate risks therefore depends on which currencies depreciate relative to the euro.

The Telefónica Group aims to protect itself against declines in Latin American currencies relative to the euro affecting asset values through the use of dollar-denominated debt, incurred either in Spain (where such debt is associated with an investment as long as it is considered to be an effective hedge) or in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent. At December 31, 2012, the Telefónica Group's net debt denominated in dollars was equivalent to 1,279 million euros.

At December 31, 2012, pound sterling-denominated net debt was approximately 1.8 times the value of the 2012 operating income before depreciation and amortization (OIBDA) from the Telefónica Europe business unit in the United Kingdom. The Telefónica Group's aim is to maintain a similar proportion of pound sterling-denominated net debt to OIBDA as the Telefónica Group's net debt to OIBDA ratio, on a consolidated basis, to reduce its sensitivity to changes in the pound sterling to euro exchange rate. Pound sterling-denominated net debt at December 31, 2012, was equivalent to 2,629 million euros, less than the 3,540 million euros at December 31, 2011.

The risk-management objective to protect the investment in the Czech Republic is similar to that described for the investment in the UK, where the amount of Czech crown-denominated debt is proportional to the OIBDA of the "Telefónica Europe" business unit in the Czech Republic. Czech crown-denominated net debt at December 31, 2012 was 2.1 times OIBDA in Czech crown (1.7 times in 2011) on a consolidated basis and 2.97 times (2.55 times in 2011) on a proportional basis.

The Telefónica Group also manages exchange rate risk by seeking to minimize the negative impact of any remaining exchange rate exposure on the income statement, regardless of whether there are open positions. Such open position exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in sourcing local currency finance which makes it impossible to arrange a low-cost hedge (as in Argentina and Venezuela), (ii) financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for financing through capital contributions, and (iii) as the result of a deliberate policy decision, to avoid the high cost of hedges that are not warranted by expectations or high risk of depreciation.

In 2012, exchange rate management resulted in negative exchange rate differences totalling 534 million euros (excluding the impact of hyperinflationary adjustments), primarily due to the impact on the Group's estimates of the 32% fall in the asset value of the Venezuelan bolivar against the US dollar in 2013, compared to 176 million euros in negative differences in 2011.

The following table illustrates the sensitivity of foreign currency gains and losses and of equity to changes in exchange rates, where: (i) in calculating the impact on the income statement, the exchange rate position affecting the income statement at the end of 2012 was considered constant during 2013; (ii) in calculating the impact on equity, only monetary items have been considered, namely debt and derivatives such as hedges of net investment and loans to associates in investment, whose breakdown is considered constant in 2013 and identical to that existing at the end of 2012. In both cases, Latin American currencies are assumed to depreciate against the dollar and the rest of the currencies against the euro by 10%.

Table of Contents

2012 Consolidated Financial Statements

Millions of euros

Currency	Change	Impact on the consolidated income statement	Impact on consolidated equity
All currencies vs EUR	10%	112	(271)
USD vs EUR	10%	10	73
European currencies vs EUR	10%	–	(498)
Latin American currencies vs USD	10%	102	154
All currencies vs EUR	(10)%	(112)	271
USD vs EUR	(10)%	(10)	(73)
European currencies vs EUR	(10)%	–	498
Latin American currencies vs USD	(10)%	(102)	(154)

Following the decision of the Government of Venezuela on February 8, 2013 to devaluate the bolivar from 4.3 bolivars per dollar to 6.3 bolivars per dollar, the Group considers that, pursuant to IFRS, the devaluation is an event after the 2012 balance sheet date that does not require a modification of the exchange rate used to convert financial information of Venezuelan companies based on 4.3 bolivars per dollar.

The new exchange rate of 6.3 bolivars per US dollar will be used from 2013 in the conversion of financial information on Venezuelan subsidiaries. The main aspects to be considered in 2013 are detailed in Note 24.

The exchange-rate situation of the Bolivar fuerte affects the estimates made by the Group of the liquidation value of the net foreign currency position related to investments in Venezuela, the negative impact of which on the 2012 financial statements amounts to 438 million euros.

The Group's monetary position in Venezuela at December 31, 2012 is a net debtor position of 2,974 million Venezuelan bolivars (equivalent to approximately 524 million euros). It had an average creditor debt position in 2012, leading to a higher financial expense in the amount of 64 million euros for the effect of inflation.

Interest rate risk

The Telefónica Group's financial expenses are exposed to changes in interest rates. In 2012, the rates applied to the largest amount of short-term debt were mainly based on the Euribor, the Czech crown Pribor, the Brazilian SELIC, the US dollar and pound sterling Libor, and the Colombian UVR. In nominal terms, at December 31, 2012, 74% of Telefónica's net debt (or 73% of long-term net debt) was pegged to fixed interest rates for a period greater than one year, compared to 66% of net debt (70% of long-term net debt) in 2011. Of the remaining 26% (net debt at floating rates or at fixed rates maturing in under one year), 10 percentage points had interest rates collared in a period over one year (or 3% of long-term debt), while at December 31, 2011 this was the case for 15 percentage points of net debt at floating rates or with fixed rates maturing within one year (5% of long-term net debt). This decrease in 2012 from 2011 is due to our decision to cancel or not renew an amount equivalent to 1,428 million euros of caps and floors in euros, US dollars and pounds sterling, following the policy implemented in 2009 in anticipation of a fall in interest rates.

In addition, early retirement liabilities were discounted to present value over the year, based on the curve for instruments with very high credit quality. The decrease in interest rates has increased the market value of these liabilities. However, this increase was nearly completely offset by the increase in the value of the hedges on these positions.

Net financial expense rose 24.4% to 3,658 million in 2012 from 2,941 million euros in 2011. This increase is due to two effects with similar impacts: first, an increase in interest rate costs primarily due to the increase in average debt (up 3.3% to a total of 58,187 million euros), the rise in credit spreads and the need to enhance liquidity (with very low returns compared to the cost of the debt) as a result of the market crises; and, secondly, to the impact on estimates of the 32% devaluation in the Venezuelan bolivar, as explained above. In spite of the increase in credit costs, the Group's weighted average cost of gross debt (excluding cash) was held steady at 4.7%. Stripping out exchange rate differences, such expenses implied an average cost of debt of 5.37% in the last 12 months.

To illustrate the sensitivity of financial expenses to variability in short-term interest rates, a 100 basis points increase in interest rates in all currencies in which Telefónica has financial positions at December 31, 2012 has been assumed, and a

100 basis points decrease in interest rates in all currencies except those currencies with low interest rates, in order to avoid negative rates (euro, pound sterling and the US dollar) and a constant position equivalent to that prevailing at the end of 2012.

To illustrate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates in all currencies and terms of the curve, in which Telefónica holds financial positions at December 31, 2012 was assumed, as well as a 100 basis point decrease in all currencies and terms (except those below 1% in order to avoid negative rates). Cash flow hedge positions were also considered as they are fundamentally the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

Millions of euros

Change in basis points (bp)	Impact on consolidated income statement	Impact on consolidated equity
+100bp	(96)	747
-100bp	36	(685)

Share price risk

The Telefónica Group is exposed to changes in the value of equity investments that may be bought, sold or otherwise involved in transactions, from changes in the value of derivatives associated with such investments, from treasury shares and from equity derivatives.

According to the Telefónica, S.A. share option plan, Performance Share Plan (PSP) and the Performance & Investment Plan (PIP) (see Note 20) the shares to be delivered to employees under such plan may be either the parent company treasury shares, acquired by them or any of its Group companies; or newly-issued shares. The possibility of delivering shares to beneficiaries of the plan in the future, in accordance with relative total shareholders' return, implies a risk since there could be an obligation to hand over a maximum number of shares at the end of each phase, whose acquisition (in the event of acquisition in the market) in the future could imply a higher cash outflow than required on the start date of each phase if the share price is above the corresponding price on the phase start date. In the event that new shares are issued for delivery to the beneficiaries of the plan, there would be a dilutive effect for ordinary shareholders as a result of the higher number of shares delivered under such plan outstanding.

To reduce the risk associated with variations in share price under these plans, Telefónica has acquired instruments that replicate the risk profile of some of these plans as explained in Note 20.

In 2012, the second Global Employee Share Plan was launched, in accordance with approval given at the 2011 Ordinary General Shareholders' Meeting (see details of the plan in Note 20).

In addition, the Group may use part of the treasury shares of Telefónica, S.A. held at December 31, 2012 to cover shares deliverable under the PSP or the Global Employee Share Plan. The net asset value of the treasury shares could increase or decrease depending on variations in Telefónica, S.A.'s share price.

Liquidity risk

The Telefónica Group seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, while allowing for some flexibility. In practice, this has been translated into two key principles: