VISHAY INTERTECHNOLOGY INC
Form 10-Q
August 03, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2017

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

For the transition period from _______ to _______

Commission File Number 1-7416

VISHAY INTERTECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.
ýYes No

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

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

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

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

As of July 28, 2017, the registrant had 134,124,823 shares of its common stock and 12,129,227 shares of its Class B common stock outstanding.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	July 1, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$561,032	$471,781
Short-term investments	626,172	626,627
Accounts receivable, net	327,131	274,027
Inventories:		
Finished goods	126,667	109,075
Work in process	175,027	162,311
Raw materials	117,100	109,859
Total inventories	418,794	381,245
Prepaid expenses and other current assets	117,055	110,792
Total current assets	2,050,184	1,864,472
Property and equipment, at cost:		
Land	91,282	89,753
Buildings and improvements	586,898	570,932
Machinery and equipment	2,376,420	2,283,222
Construction in progress	58,150	71,777
Allowance for depreciation	(2,266,097)	(2,166,813)
Property and equipment, net	846,653	848,871
Goodwill	142,209	141,407
Other intangible assets, net	76,945	84,463
Other assets	142,853	138,588
Total assets	$3,258,844	$3,077,801

Continues on following page.

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

	July 1, 2017 (Unaudited)	December 31, 2016
Liabilities and equity		
Current liabilities:		
Notes payable to banks	$11	$3
Trade accounts payable	181,906	174,107
Payroll and related expenses	129,836	114,576
Other accrued expenses	153,546	149,131
Income taxes	9,630	19,033
Total current liabilities	474,929	456,850
Long-term debt less current portion	350,329	357,023
Deferred income taxes	288,516	286,797
Other liabilities	65,366	59,725
Accrued pension and other postretirement costs	267,879	257,789
Total liabilities	1,447,019	1,418,184
Redeemable convertible debentures	88,044	88,659
Stockholders' equity:		
Vishay stockholders' equity		
Common stock	13,413	13,385
Class B convertible common stock	1,213	1,213
Capital in excess of par value	1,955,926	1,952,988
(Accumulated deficit) retained earnings	(232,418)	(307,417)
Accumulated other comprehensive income (loss)	(19,503)	(94,652)
Total Vishay stockholders' equity	1,718,631	1,565,517
Noncontrolling interests	5,150	5,441
Total equity	1,723,781	1,570,958
Total liabilities, temporary equity, and equity	$3,258,844	$3,077,801

See accompanying notes.
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VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Statements of Operations
(Unaudited - In thousands, except per share amounts)

	Fiscal quarters ended	
	July 1, 2017	July 2, 2016
Net revenues	$644,892	$590,051
Costs of products sold	471,929	443,923
Gross profit	172,963	146,128
Selling, general, and administrative expenses	90,446	92,253
Restructuring and severance costs	481	4,467
Operating income	82,036	49,408
Other income (expense):		
Interest expense	(7,076)	(6,270)
Other	749	2,256
Gain on early extinguishment of debt	-	986
Total other income (expense)	(6,327)	(3,028)
Income before taxes	75,709	46,380
Income tax expense	19,300	13,151
Net earnings	56,409	33,229
Less: net earnings attributable to noncontrolling interests	219	143
Net earnings attributable to Vishay stockholders	$56,190	$33,086
Basic earnings per share attributable to Vishay stockholders	$0.38	$0.22
Diluted earnings per share attributable to Vishay stockholders	$0.36	$0.22
Weighted average shares outstanding - basic	146,381	147,643
Weighted average shares outstanding - diluted	155,300	149,845
Cash dividends per share	$0.0625	$0.0625

See accompanying notes.
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VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Statements of Comprehensive Income
(Unaudited - In thousands)

	Fiscal quarters ended	
	July 1, 2017	July 2, 2016
Net earnings	$56,409	$33,229
Other comprehensive income, net of tax		
Pension and other post-retirement actuarial items	1,216	1,657
Foreign currency translation adjustment	53,523	(22,484)
Unrealized gain on available-for-sale securities	511	719
Other comprehensive income	55,250	(20,108)
Comprehensive income	111,659	13,121
Less: comprehensive income attributable to noncontrolling interests	219	143
Comprehensive income attributable to Vishay stockholders	$111,440	$12,978

See accompanying notes.
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VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Statements of Operations
(Unaudited - In thousands, except per share amounts)

	Six fiscal months ended	
	July 1, 2017	July 2, 2016
Net revenues	$1,251,150	$1,160,657
Costs of products sold	917,312	877,220
Gross profit	333,838	283,437
Selling, general, and administrative expenses	185,164	182,539
Restructuring and severance costs	1,950	10,942
Operating income	146,724	89,956
Other income (expense):		
Interest expense	(13,866)	(12,736)
Other	353	3,035
Gain on early extinguishment of debt	-	4,597
Loss on disposal of equity affiliate	(7,060)	-
Total other income (expense)	(20,573)	(5,104)
Income before taxes	126,151	84,852
Income taxes	32,793	23,471
Net earnings	93,358	61,381
Less: net earnings attributable to noncontrolling interests	449	281
Net earnings attributable to Vishay stockholders	$92,909	$61,100
Basic earnings per share attributable to Vishay stockholders	$0.63	$0.41
Diluted earnings per share attributable to Vishay stockholders	$0.60	$0.41
Weighted average shares outstanding - basic	146,328	147,739
Weighted average shares outstanding - diluted	155,088	150,237
Cash dividends per share	$0.1250	$0.1250

See accompanying notes.

VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Statements of Comprehensive Income
(Unaudited - In thousands)

	Six fiscal months ended	
	July 1, 2017	July 2, 2016
Net earnings	$93,358	$61,381
Other comprehensive income, net of tax		
Pension and other post-retirement actuarial items	3,551	3,525
Foreign currency translation adjustment	70,816	10,048
Unrealized gain on available-for-sale securities	782	1,346
Other comprehensive income	75,149	14,919
Comprehensive income	168,507	76,300
Less: comprehensive income attributable to noncontrolling interests	449	281
Comprehensive income attributable to Vishay stockholders	$168,058	$76,019

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

	Six fiscal months ended	
	July 1, 2017	July 2, 2016 (recast - see Note 1)
Operating activities		
Net earnings	$93,358	$61,381
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	80,380	79,117
(Gain) loss on disposal of property and equipment	(51)	76
Accretion of interest on convertible debentures	2,444	2,259
Inventory write-offs for obsolescence	9,729	11,225
Loss on disposal of equity affiliate	7,060	-
Deferred income taxes	6,640	(2,836)
Gain on early extinguishment of debt	-	(4,597)
Other	2,579	(9,009)
Net change in operating assets and liabilities, net of effects of businesses acquired	(73,873)	(42,203)
Net cash provided by operating activities	128,266	95,413
Investing activities		
Capital expenditures	(49,067)	(51,073)
Proceeds from sale of property and equipment	1,288	193
Purchase of short-term investments	(418,114)	(274,524)
Maturity of short-term investments	454,918	351,326
Other investing activities	(6,664)	2,975
Net cash provided by (used in) investing activities	(17,639)	28,897
Financing activities		
Principal payments on long-term debt and capital leases	-	(34,044)
Net proceeds (payments) on revolving credit lines	(10,000)	(66,000)
Common stock repurchases	-	(6,123)
Net changes in short-term borrowings	7	(725)
Dividends paid to common stockholders	(16,761)	(16,924)
Dividends paid to Class B common stockholders	(1,516)	(1,516)
Proceeds from stock options exercised	1,260	-
Distributions to noncontrolling interests	(740)	(707)
Cash withholding taxes paid when shares withheld for vested equity awards	(1,971)	(442)
Other financing activities	(1,255)	-
Net cash provided by (used in) financing activities	(30,976)	(126,481)
Effect of exchange rate changes on cash and cash equivalents	9,600	1,831
Net increase (decrease) in cash and cash equivalents	89,251	(340)
Cash and cash equivalents at beginning of period	471,781	475,507

Cash and cash equivalents at end of period	$561,032	$475,167

See accompanying notes.

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VISHAY INTERTECHNOLOGY, INC.
Consolidated Condensed Statement of Equity
(Unaudited - In thousands, except share and per share amounts)

	Common Stock	Class B Convertible Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Vishay Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	$ 13,385	$ 1,213	$ 1,952,988	$ (307,417)	$ (94,652)	$ 1,565,517	$ 5,441	$ 1,570,958
Cumulative effect of accounting change for adoption of ASU 2016-09 (see Note 1)	-	-	-	386	-	386	-	386
Net earnings	-	-	-	92,909	-	92,909	449	93,358
Other comprehensive income	-	-	-	-	75,149	75,149	-	75,149
Distributions to noncontrolling interests	-	-	-	-	-	-	(740)	(740)
Temporary equity reclassification	-	-	615	-	-	615	-	615
Issuance of stock and related tax withholdings for vested restricted stock units (200,688 shares)	20	-	(1,991)	-	-	(1,971)	-	(1,971)
Dividends declared ($ 0.1250 per share)	-	-	19	(18,296)	-	(18,277)	-	(18,277)
Stock compensation expense	-	-	3,043	-	-	3,043	-	3,043
Stock options exercised (77,334 shares)	8	-	1,252	-	-	1,260	-	1,260
Balance at July 1, 2017	$ 13,413	$ 1,213	$ 1,955,926	$ (232,418)	$ (19,503)	$ 1,718,631	$ 5,150	$ 1,723,781

See accompanying notes.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

Note 1 – Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Vishay Intertechnology, Inc. ("Vishay" or the "Company") have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for presentation of financial position, results of operations, and cash flows required by accounting principles generally accepted in the United States ("GAAP") for complete financial statements. The information furnished reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair summary of the financial position, results of operations, and cash flows for the interim periods presented. The financial statements should be read in conjunction with the consolidated financial statements filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for the fiscal quarter and six fiscal months ended July 1, 2017 are not necessarily indicative of the results to be expected for the full year.

The Company reports interim financial information for 13-week periods beginning on a Sunday and ending on a Saturday, except for the first fiscal quarter, which always begins on January 1, and the fourth fiscal quarter, which always ends on December 31. The four fiscal quarters in 2017 end on April 1, 2017, July 1, 2017, September 30, 2017, and December 31, 2017, respectively. The four fiscal quarters in 2016 ended on April 2, 2016, July 2, 2016, October 1, 2016, and December 31, 2016, respectively.

Recently Adopted Accounting Guidance

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU is the result of the FASB's simplification initiative intended to improve GAAP by reducing costs and complexity while maintaining or enhancing the usefulness of related financial statement information. The ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company adopted the ASU on January 1, 2017. The ASU allowed prospective adoption of certain aspects, while requiring retrospective adoption of other aspects of the guidance. The Company recognized a cumulative-effect adjustment for previously unrecognized excess tax benefits in January 1, 2017 retained earnings (accumulated deficit) of $386. The Company reclassified $442 of cash withholding taxes paid when shares were withheld for vested equity awards in the accompanying consolidated condensed statement of cash flows for the six fiscal months ended July 2, 2016 to financing cash flows. The Company retrospectively reclassified excess tax benefits as operating cash flows on the consolidated condensed statement of cash flows. The Company will recognize forfeitures on its stock-based awards as they occur.

Recently Issued Accounting Guidance

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU is the result of a convergence project between the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The ASU removes inconsistencies and weaknesses in revenue requirements; provides a more robust framework for addressing revenue issues; improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; provides more useful information to users of financial statements through expanded disclosure requirements; and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The ASU is effective for the Company for interim and annual periods beginning on or after January 1, 2018. The Company intends to retrospectively adopt the ASU effective January 1, 2018. Based on work performed to date, the adoption of the ASU is not expected to have a material impact on the Company's results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU is the result of a project between the FASB and the International Accounting Standards Board to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Upon adoption of the ASU, the Company will recognize lease assets and liabilities for its operating leases which are not currently reported on its consolidated balance sheets. The ASU is effective for the Company for interim and annual periods beginning on or after January 1, 2019, with the ability to early adopt. The Company is currently evaluating the effect of the ASU on its lease contracts.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Company for interim and annual periods beginning on or after January 1, 2020, with the ability to early adopt for interim and annual periods beginning on or after January 1, 2019. The Company is currently evaluating the effect of the ASU on its financial assets measured at amortized cost.

Reclassifications

In addition to the changes due to the retrospective adoption of certain aspects of new accounting guidance described above, certain prior period amounts have been reclassified to conform to the current financial statement presentation.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

Note 2 – Restructuring and Related Activities

The Company places a strong emphasis on controlling its costs and combats general price inflation by continuously improving its efficiency and operating performance. When the ongoing cost containment activities are not adequate, the Company takes actions to maintain its cost competitiveness.

The Company incurred significant restructuring costs in its past to reduce its cost structure. Historically, the Company's primary cost reduction technique was through the transfer of production from high-labor-cost countries to lower-labor-cost countries. Since 2013, the Company's cost reduction programs have primarily focused on reducing fixed costs, including selling, general, and administrative expenses.

In 2013, the Company announced various cost reduction programs. These programs were substantially implemented by the end of the first fiscal quarter of 2016, with some additional costs incurred in the remainder of 2016. Many of the severance costs were recognized ratably over the required stay periods. In November 2016, the Company announced an extension of one of these programs.

In 2015, the Company announced additional global cost reduction programs. These programs include a facility closure in the Netherlands. The cash costs of these programs, primarily severance, are expected to aggregate to approximately $30,000. Complete implementation of these programs is expected to occur before the end of 2017.

The following table summarizes restructuring and related expenses which were recognized and reported on a separate line in the accompanying consolidated condensed statements of operations:

	Fiscal quarters ended		Six fiscal months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
MOSFETs Enhanced Competitiveness Program	$28	$1,110	$448	$5,025
Global Cost Reduction Programs	453	3,357	1,502	5,917
Total	$481	$4,467	$1,950	$10,942

MOSFETs Enhanced Competitiveness Program

Over a period of approximately 2 years and in a series of discrete steps, the manufacture of wafers for a substantial share of products was transferred into a more cost-efficient fab. As a consequence, certain other manufacturing previously occurring in-house was transferred to third-party foundries. This transfer of production was substantially completed by the end of the first fiscal quarter of 2016.

Employees generally were required to remain with the Company during the production transfer period. Accordingly, the Company accrued these severance costs ratably over the respective employees' remaining service periods. The Company has incurred and may continue to incur other exit costs associated with the production transfer, including certain contract termination costs.

As a result of a review of the financial results and outlook for the Company's MOSFETs segment following the completion of production transfers, the Company has determined to implement further cost reductions for the MOSFETs segment.

In November 2016, the Company announced an extension of the MOSFETs Enhanced Competitiveness Program. The revised program includes various cost reduction initiatives, primarily the transfer of all remaining manufacturing operations at its Santa Clara, California facility to other Vishay facilities or third-party subcontractors. The production transfers will be completed in steps by the end of 2017. The Company expects to incur cash charges of approximately $4,000 to $8,000, primarily related to severance, to implement these steps. The total cash charges for the MOSFETs Enhanced Competitiveness Program are expected to be $24,000 to $27,000. The Company expects to maintain its R&D and management presence in the Silicon Valley area, even after the cessation of manufacturing operations there.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

The following table summarizes the activity to date related to this program:

Expense recorded in 2013	$2,328
Cash paid	(267)
Balance at December 31, 2013	$2,061
Expense recorded in 2014	6,025
Cash paid	(856)
Balance at December 31, 2014	$7,230
Expense recorded in 2015	5,367
Cash paid	(426)
Foreign currency translation	1
Balance at December 31, 2015	$12,172
Expense recorded in 2016	9,744
Cash paid	(15,686)
Foreign currency translation	2
Balance at December 31, 2016	$6,232
Expense recorded in 2017	448
Cash paid	(3,356)
Balance at July 1, 2017	$3,324

Severance benefits are generally paid in a lump sum at cessation of employment. Other exit costs of $80 are included in the expenses incurred in 2017 in the table above. The entire amount of the liability is considered current and is included in other accrued expenses in the accompanying consolidated condensed balance sheets.

Voluntary Separation / Retirement Program

The voluntary separation / early retirement program was offered to employees worldwide who were eligible because they met job classification, age, and years-of-service criteria as of October 31, 2013. The program benefits varied by country and job classification, but generally included a cash loyalty bonus based on years of service. All employees eligible for the program have left the Company.

These employees generally were not aligned with any particular segment. The effective separation / retirement date for most employees who accepted the offer was June 30, 2014 or earlier, with a few exceptions to allow for a transition period. The Company recorded $13,373 of expenses for this program, primarily in 2013 and 2014. Substantially all amounts related to this program have been paid as of July 1, 2017.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

Global Cost Reduction Programs

The global cost reduction programs announced in 2015 include a plan to reduce selling, general, and administrative costs company-wide, and targeted streamlining and consolidation of production for certain product lines within its Capacitors and Resistors & Inductors segments.

The following table summarizes the activity to date related to this program:

Expense recorded in 2015	$13,753
Cash paid	(986)
Foreign currency translation	(150)
Balance at December 31, 2015	$12,617
Expense recorded in 2016	9,918
Cash paid	(16,237)
Foreign currency translation	(34)
Balance at December 31, 2016	$6,264
Expense recorded in 2017	1,502
Cash paid	(4,728)
Foreign currency translation	237
Balance at July 1, 2017	$3,275

The following table summarizes the expense recognized by segment related to this program:

	Fiscal quarters ended		Six fiscal months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Diodes	$13	$130	$13	$578
Optoelectronic Components	242	775	242	953
Resistors & Inductors	84	1,504	935	2,522
Capacitors	85	89	246	423
Unallocated Selling, General, and Administrative Expenses	29	859	66	1,441
Total	$453	$3,357	$1,502	$5,917

Severance benefits are generally paid in a lump sum at cessation of employment. The current portion of the liability is $2,633 and is included in other accrued expenses in the accompanying consolidated condensed balance sheets. The non-current portion of the liability is included in other liabilities in the accompanying consolidated condensed balance sheets.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

Note 3 – Income Taxes

The provision for income taxes consists of provisions for federal, state, and foreign income taxes. The effective tax rates for the periods ended July 1, 2017 and July 2, 2016 reflect the Company's expected tax rate on reported income from continuing operations before income tax and tax adjustments. The Company operates in a global environment with significant operations in various jurisdictions outside the United States. Accordingly, the consolidated income tax rate is a composite rate reflecting the Company's earnings and the applicable tax rates in the various jurisdictions where the Company operates.

Income tax expense for the fiscal quarter and six fiscal months ended July 1, 2017 includes $1,240 and $2,208, respectively, for the periodic remeasurement of the deferred tax liability recorded for the cash repatriation program compared to $1,217 and $1,986 for the fiscal quarter and six fiscal months ended July 2, 2016, respectively. The cash repatriation program is expected to occur over several years, and the deferred tax liability is based on the available sources of cash, applicable tax rates, and other factors and circumstances, as of each respective balance sheet date. Changes in the underlying facts and circumstances result in changes in the deferred tax liability balance, which are recorded as tax benefit or expense. During the second fiscal quarter of 2017, the Company repatriated $38,000 pursuant to this program.

During the six fiscal months ended July 1, 2017, the liabilities for unrecognized tax benefits decreased by $2,225 on a net basis, due to payments and settlements, partially offset by increases for tax positions taken in the current period, interest, and foreign currency effects.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

Note 4 – Long-Term Debt

Long-term debt consists of the following:

	July 1, 2017	December 31, 2016
Credit facility	$133,000	$143,000
Convertible senior debentures, due 2040	109,291	108,120
Convertible senior debentures, due 2041	56,072	55,442
Convertible senior debentures, due 2042	61,956	61,341
Deferred financing costs	(9,990)	(10,880)
	350,329	357,023
Less current portion	-	-
	$350,329	$357,023

Convertible Senior Debentures

Vishay currently has three issuances of convertible senior debentures outstanding with generally congruent terms. The quarterly cash dividend program of the Company results in adjustments to the conversion rate and effective conversion price for each issuance of the Company's convertible senior debentures effective as of the ex-dividend date of each cash dividend.

The following table summarizes some key facts and terms regarding the three series of outstanding convertible senior debentures following the adjustment made to the conversion rate of the debentures on the ex-dividend date of the June 29, 2017 dividend payment:

	Due 2040	Due 2041	Due 2042
Issuance date	November 9, 2010	May 13, 2011	May 31, 2012
Maturity date	November 15, 2040	May 15, 2041	June 1, 2042
Principal amount	$275,000	$150,000	$150,000
Cash coupon rate (per annum)	2.25 %	2.25 %	2.25 %
Nonconvertible debt borrowing rate at issuance (per annum)	8.00 %	8.375 %	7.50 %
Conversion rate effective June 13, 2017 (per $1 principal amount)	76.6985	55.9705	90.1791
Effective conversion price effective June 13, 2017 (per share)	$13.04	$17.87	$11.09
130% of the conversion price (per share)	$16.95	$23.23	$14.42
Call date	November 20, 2020	May 20, 2021	June 7, 2022

Prior to three months before the maturity date, the holders may only convert their debentures under the following circumstances: (1) during any fiscal quarter after the first full quarter subsequent to issuance, if the sale price of Vishay common stock reaches 130% of the conversion price for a specified period; (2) the trading price of the debentures falls below 98% of the product of the sale price of Vishay's common stock and the conversion rate for a specified period; (3) Vishay calls any or all of the debentures for redemption, at any time prior to the close of business on the third scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events.

The convertible debentures due 2042 became convertible subsequent to the December 31, 2016 evaluation of the conversion criteria, remained convertible subsequent to the April 1, 2017 evaluation, and remain convertible subsequent to the July 1, 2017 evaluation, due to the sale price of Vishay's common stock exceeding 130% of the conversion price for the applicable periods in the fourth fiscal quarter of 2016 and first and second fiscal quarters of 2017. The debentures due 2042 will remain convertible until September 30, 2017, at which time the conversion criteria will be reevaluated. At the direction of its Board of Directors, the Company intends, upon future conversion of any of the convertible senior debentures, to repay the principal amounts of the convertible senior debentures in cash and settle any additional amounts in shares of Vishay common stock. The excess of the amount that the Company would pay to the holders of the debentures due 2042 upon conversion over the carrying value of the liability component of the debentures currently convertible has been reclassified as temporary equity on the consolidated condensed financial statements. The Company intends to finance the principal amount of any converted debentures using borrowings under its credit facility. Accordingly, the debt component of the convertible debentures due 2042 continues to be classified as a non-current liability on the consolidated condensed balance sheets.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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GAAP requires an issuer to separately account for the liability and equity components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate when interest costs are recognized in subsequent periods. The resulting discount on the debt is amortized as non-cash interest expense in future periods.

The carrying values of the liability and equity components of the convertible debentures are reflected in the Company's consolidated condensed balance sheets as follows:

	Principal amount of the debentures	Unamortized discount	Embedded derivative	Carrying value of liability component	Equity component (including temporary equity) - net carrying value
July 1, 2017					
Due 2040	$ 275,000	(166,058)	349	$ 109,291	$ 110,094
Due 2041	$ 150,000	(94,221)	293	$ 56,072	$ 62,246
Due 2042	$ 150,000	(88,228)	184	$ 61,956	$ 57,874
Total	$ 575,000	$ (348,507)	$ 826	$ 227,319	$ 230,214
December 31, 2016					
Due 2040	$ 275,000	(167,273)	393	$ 108,120	$ 110,094
Due 2041	$ 150,000	(94,843)	285	$ 55,442	$ 62,246
Due 2042	$ 150,000	(88,835)	176	$ 61,341	$ 57,874
Total	$ 575,000	$ (350,951)	$ 854	$ 224,903	$ 230,214

Interest is payable on the debentures semi-annually at the cash coupon rate; however, the remaining debt discount is being amortized as additional non-cash interest expense using an effective annual interest rate equal to the Company's estimated nonconvertible debt borrowing rate at the time of issuance. In addition to ordinary interest, contingent interest will accrue in certain circumstances relating to the trading price of the debentures and under certain other circumstances beginning ten years subsequent to issuance.

Interest expense related to the debentures is reflected on the consolidated condensed statements of operations for the fiscal quarters ended:

	Contractual coupon interest	Non-cash amortization of debt discount	Non-cash amortization of deferred financing costs	Non-cash change in value of derivative liability	Total interest expense related to the debentures
July 1, 2017					
Due 2040	$ 1,547	613	22	(19)	$ 2,163
Due 2041	$ 844	314	12	6	$ 1,176
Due 2042	$ 844	306	14	12	$ 1,176
Total	$ 3,235	$ 1,233	$ 48	$ (1)	$ 4,515

July 2, 2016					
Due 2040	$ 1,547	567	22	(41)	$ 2,095
Due 2041	$ 844	289	13	(72)	$ 1,074
Due 2042	$ 844	283	14	(14)	$ 1,127
Total	$ 3,235	$ 1,139	$ 49	$ (127)	$ 4,296

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NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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Interest expense related to the debentures is reflected on the consolidated condensed statements of operations for the six fiscal months ended:

	Contractual coupon interest	Non-cash amortization of debt discount	Non-cash amortization of deferred financing costs	Non-cash change in value of derivative liability	Total interest expense related to the debentures
July 1, 2017					
Due 2040	$ 3,094	1,215	44	(44)	$ 4,309
Due 2041	$ 1,688	622	24	8	$ 2,342
Due 2042	$ 1,688	607	27	8	$ 2,330
Total	$ 6,470	$ 2,444	$ 95	$ (28)	$ 8,981
July 2, 2016					
Due 2040	$ 3,094	1,123	44	(35)	$ 4,226
Due 2041	$ 1,688	573	24	(34)	$ 2,251
Due 2042	$ 1,688	563	27	(31)	$ 2,247
Total	$ 6,470	$ 2,259	$ 95	$ (100)	$ 8,724

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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Note 5 – Other Income (Expense)

In March 2017, the Company sold its 50% interest in an investment accounted for using the equity method, and recorded a loss of $7,060. The recorded loss includes Vishay's proportionate share of the investee's accumulated other comprehensive loss of $1,110, recognized upon discontinuation of the equity investment. The loss on disposal is not deductible for income tax purposes. There are certain contingencies pending resolution related to the investee, which may require adjustment to the amount of the recognized loss. The resolution of such additional contingencies is not expected to be material to the financial condition, results of operations, or cash flows of the Company.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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Note 6 – Accumulated Other Comprehensive Income (Loss)

The cumulative balance of each component of other comprehensive income (loss) and the income tax effects allocated to each component are as follows:

	Pension and other post-retirement actuarial items	Currency translation adjustment	Unrealized gain (loss) on available-for-sale securities	Total
Balance at January 1, 2017	$ (64,496)	$ (31,266)	1,110	$ (94,652)
Other comprehensive income before reclassifications	-	70,816	1,204	$ 72,020
Tax effect	-	-	(422)	$ (422)
Other comprehensive income before reclassifications, net of tax	-	70,816	782	$ 71,598
Amounts reclassified out of AOCI	5,072	-	-	$ 5,072
Tax effect	(1,521)	-	-	$ (1,521)
Amounts reclassified out of AOCI, net of tax	3,551	-	-	$ 3,551
Net other comprehensive income	$ 3,551	$ 70,816	$ 782	$ 75,149
Balance at July 1, 2017	$ (60,945)	$ 39,550	$ 1,892	$ (19,503)

Reclassifications of pension and other post-retirement actuarial items out of AOCI are included in the computation of net periodic benefit cost. (See Note 7 for further information).

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

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Note 7 – Pensions and Other Postretirement Benefits

The Company maintains various retirement benefit plans.

Defined Benefit Pension Plans

The following table shows the components of the net periodic pension cost for the second fiscal quarters of 2017 and 2016 for the Company's defined benefit pension plans:

	Fiscal quarter ended July 1, 2017		Fiscal quarter ended July 2, 2016	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Net service cost	$ -	$ 925	$ -	$ 791
Interest cost	411	1,199	2,889	1,383
Expected return on plan assets	-	(518)	(2,826)	(542)
Amortization of prior service cost	36	18	36	13
Amortization of losses	83	1,523	1,651	1,201
Curtailment and settlement losses	-	330	-	201
Net periodic benefit cost	$ 530	$ 3,477	$ 1,750	$ 3,047

The following table shows the components of the net periodic pension cost for the six fiscal months ended July 1, 2017 and July 2, 2016 for the Company's defined benefit pension plans:

	Six fiscal months ended July 1, 2017		Six fiscal months ended July 2, 2016	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Net service cost	$ -	$ 1,828	$ -	$ 1,565
Interest cost	821	2,366	5,889	2,736
Expected return on plan assets	-	(1,024)	(5,651)	(1,076)
Amortization of prior service cost	72	36	72	25
Amortization of losses	165	3,001	3,301	2,372
Curtailment and settlement losses	-	652	-	396
Net periodic benefit cost	$ 1,058	$ 6,859	$ 3,611	$ 6,018

Net periodic benefit cost in 2017 was significantly impacted by the termination and settlement of the Company's qualified U.S. pension plan in December 2016. The settlement resulted in the immediate recognition of previously unrecognized actuarial items related to the plan in 2016 that were recorded in accumulated other comprehensive income and were being amortized into net periodic pension cost. A final reconciliation of participant data subject to the settlement annuity contract was completed during the second fiscal quarter of 2017. The final annuity pricing adjustment and related items did not have a material impact on the Company's financial results.

The Company contributed $4,409 to the Company's Taiwanese pension plans to improve the funded status of those plans in 2017.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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Other Postretirement Benefits

The following table shows the components of the net periodic benefit cost for the second fiscal quarters of 2017 and 2016 for the Company's other postretirement benefit plans:

	Fiscal quarter ended July 1, 2017		Fiscal quarter ended July 2, 2016	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	$33	$ 67	$32	$ 68
Interest cost	78	26	85	36
Amortization of prior service (credit)	(209)	-	(209)	-
Amortization of losses (gains)	(23)	15	(7)	17
Net periodic benefit cost	$(121)	$ 108	$(99)	$ 121

The following table shows the components of the net periodic pension cost for the six fiscal months ended July 1, 2017 and July 2, 2016 for the Company's other postretirement benefit plans:

	Six fiscal months ended July 1, 2017		Six fiscal months ended July 2, 2016	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	$66	$ 131	$63	$ 135
Interest cost	155	50	170	72
Amortization of prior service (credit)	(418)	-	(418)	-
Amortization of losses (gains)	(46)	29	(15)	34
Net periodic benefit cost	$(243)	$ 210	$(200)	$ 241

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Note 8 – Stock-Based Compensation

The Company has various stockholder-approved programs which allow for the grant of stock-based compensation to officers, employees, and non-employee directors of the Company.

The amount of compensation cost related to stock-based payment transactions is measured based on the grant-date fair value of the equity instruments issued. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The Company determines compensation cost for restricted stock units ("RSUs"), phantom stock units, and restricted stock based on the grant-date fair value of the underlying common stock adjusted for expected dividends paid over the required vesting period for non-participating awards. Compensation cost is recognized over the period that an officer, employee, or non-employee director provides service in exchange for the award.

The following table summarizes stock-based compensation expense recognized:

	Fiscal quarters ended		Six fiscal months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Restricted stock units	$676	$1,085	$2,880	2,169
Phantom stock units	-	-	163	117
Stock options	-	-	-	-
Total	$676	$1,085	$3,043	2,286

The Company recognizes compensation cost for RSUs that are expected to vest and records cumulative adjustments in the period that the expectation changes.

The following table summarizes unrecognized compensation cost and the weighted average remaining amortization periods at July 1, 2017 (amortization periods in years):

	Unrecognized Compensation Cost	Weighted Average Remaining Amortization Periods
Restricted stock units	$ 4,251	1.5
Phantom stock units	-	0.0
Stock options	-	0.0
Total	$ 4,251	

The Company currently expects all performance-based RSUs to vest and all of the associated unrecognized compensation cost for performance-based RSUs presented in the table above to be recognized.

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2007 Stock Incentive Plan

The Company's 2007 Stock Incentive Program (the "2007 Program"), as amended and restated, permits the grant of up to 6,500,000 shares of restricted stock, unrestricted stock, RSUs, stock options, and phantom stock units, to officers, employees, and non-employee directors of the Company. Such instruments are available for grant until May 20, 2024.

Restricted Stock Units

RSU activity under the 2007 Program as of July 1, 2017 and changes during the six fiscal months then ended are presented below (number of RSUs in thousands):

	Number of RSUs	Weighted Average Grant-date Fair Value per Unit
Outstanding:		
January 1, 2017	1,004	$ 12.74
Granted	304	15.52
Vested*	(322)	13.54
Cancelled or forfeited	-	-
Outstanding at July 1, 2017	986	$ 13.34
Expected to vest at July 1, 2017	986	

* The number of RSUs vested includes shares that the Company withheld on behalf of employees to satisfy the statutory tax withholding requirements.

The number of performance-based RSUs that are scheduled to vest increases ratably based on the achievement of defined performance criteria between the established target and maximum levels. RSUs with performance-based vesting criteria are expected to vest as follows (number of RSUs in thousands):

Vesting Date	Expected to Vest	Not Expected to Vest	Total
January 1, 2018	202	-	202
January 1, 2019	213	-	213
January 1, 2020	167	-	167

Phantom Stock Units

The 2007 Program authorizes the grant of phantom stock units to the extent provided for in the Company's employment agreements with certain executives. Each phantom stock unit entitles the recipient to receive a share of common stock at the individual's termination of employment or any other future date specified in the applicable employment agreement. Phantom stock units participate in dividend distribution on the same basis as the Company's common stock and Class B common stock. Dividend equivalents are issued in the form of additional units of phantom stock. The phantom stock units are fully vested at all times.

Phantom stock unit activity under the phantom stock plan as of July 1, 2017 and changes during the six fiscal months then ended are presented below (number of phantom stock units in thousands):

	Number of units	Grant-date Fair Value per Unit
Outstanding:		
January 1, 2017	145	
Granted	10	$ 16.25
Dividend equivalents issued	1	
Outstanding at July 1, 2017	156	

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Stock Options

In addition to stock options outstanding pursuant to the 2007 Program, during the periods presented, the Company had stock options outstanding under previous stockholder-approved stock option programs. These programs are more fully described in Note 12 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2016. No additional options may be granted pursuant to these programs.

At December 31, 2016, there were approximately 77,000 options outstanding with a weighted average exercise price of $16.29. During the six fiscal months ended July 1, 2017, the remaining approximately 77,000 options were exercised. The total intrinsic value of options exercised during the six fiscal months ended July 1, 2017 was $20.

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Note 9 – Segment Information

Vishay is a global manufacturer and supplier of electronic components. Vishay operates, and its chief operating decision maker makes strategic and operating decisions with regards to assessing performance and allocating resources based on, five reporting segments: MOSFETs, Diodes, Optoelectronic Components, Resistors & Inductors, and Capacitors. These segments represent groupings of product lines based on their functionality:

- Metal oxide semiconductor field-effect transistors ("MOSFETs") function as solid-state switches to control power.
- Diodes route, regulate, and block radio frequency, analog, and power signals; protect systems from surges or electrostatic discharge damage; or provide electromagnetic interference filtering.
- Optoelectronic components emit light, detect light, or do both.
- Resistors and inductors both impede electric current. Resistors are basic components used in all forms of electronic circuitry to adjust and regulate levels of voltage and current. Inductors use an internal magnetic field to change alternating current phase and resist alternating current.
- Capacitors store energy and discharge it when needed.

Vishay's reporting segments generate substantially all of their revenue from product sales to the industrial, automotive, telecommunications, computing, consumer products, power supplies, military and aerospace, and medical end markets. A small portion of revenues is from royalties.

The Company evaluates business segment performance on operating income, exclusive of certain items ("segment operating income"). Only dedicated, direct selling, general, and administrative expenses of the segments are included in the calculation of segment operating income. The Company's calculation of segment operating income excludes such selling, general, and administrative costs as global operations, sales and marketing, information systems, finance and administration groups, as well as restructuring and severance costs, goodwill and long-lived asset impairment charges, and other items. Management believes that evaluating segment performance excluding such items is meaningful because it provides insight with respect to intrinsic operating results of the Company. These items represent reconciling items between segment operating income and consolidated operating income. Business segment assets are the owned or allocated assets used by each business.

The Company also regularly evaluates gross profit by segment to assist in the analysis of consolidated gross profit. The Company considers segment operating income to be the more important metric because it more fully captures the business operations of the segments.

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The following tables set forth business segment information:

	MOSFETs	Diodes	Optoelectronic Components	Resistors & Inductors	Capacitors	Total
Fiscal quarter ended July 1, 2017:						
Product Sales	$ 114,035	$ 155,717	$ 73,838	$ 209,146	$ 92,120	$ 644,856
Royalty Revenues	-	-	-	36	-	$ 36
Total Revenue	$ 114,035	$ 155,717	$ 73,838	$ 209,182	$ 92,120	$ 644,892
Gross Profit	$ 25,315	$ 41,130	$ 25,466	$ 62,090	$ 18,962	$ 172,963
Segment Operating Income	$ 16,637	$ 36,176	$ 21,474	$ 54,688	$ 14,128	$ 143,103
Fiscal quarter ended July 2, 2016:						
Product Sales	$ 102,219	$ 142,118	$ 68,059	$ 192,717	$ 84,856	$ 589,969
Royalty Revenues	-	-	-	82	-	$ 82
Total Revenue	$ 102,219	$ 142,118	$ 68,059	$ 192,799	$ 84,856	$ 590,051
Gross Profit	$ 11,884	$ 37,258	$ 21,618	$ 57,256	$ 18,112	$ 146,128
Segment Operating Income	$ 2,560	$ 31,550	$ 15,844	$ 48,571	$ 12,632	$ 111,157
Six fiscal months ended July 1, 2017:						
Product Sales	$ 219,564	$ 300,612	$ 139,520	$ 409,523	$ 181,889	$ 1,251,108
Royalty Revenues	-	-	-	42	-	$ 42
Total Revenue	$ 219,564	$ 300,612	$ 139,520	$ 409,565	$ 181,889	$