VISHAY INTERTECHNOLOGY INC
Form 10-Q
May 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 April 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 May 1, 2017, the registrant had 134,047,489 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)

	April 1, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$499,386	$471,781
Short-term investments	638,884	626,627
Accounts receivable, net	310,208	274,027
Inventories:		
Finished goods	116,394	109,075
Work in process	170,469	162,311
Raw materials	113,653	109,859
Total inventories	400,516	381,245
Prepaid expenses and other current assets	104,911	110,792
Total current assets	1,953,905	1,864,472
Property and equipment, at cost:		
Land	90,151	89,753
Buildings and improvements	572,047	570,932
Machinery and equipment	2,312,403	2,283,222
Construction in progress	57,479	71,777
Allowance for depreciation	(2,196,653)	(2,166,813)
Property and equipment, net	835,427	848,871
Goodwill	141,587	141,407
Other intangible assets, net	80,577	84,463
Other assets	138,252	138,588
Total assets	$3,149,748	$3,077,801

Continues on following page.

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

	April 1, 2017 (Unaudited)	December 31, 2016
Liabilities and equity		
Current liabilities:		
Notes payable to banks	$11	$3
Trade accounts payable	170,821	174,107
Payroll and related expenses	121,048	114,576
Other accrued expenses	151,377	149,131
Income taxes	11,846	19,033
Total current liabilities	455,103	456,850
Long-term debt less current portion	378,652	357,023
Deferred income taxes	288,511	286,797
Other liabilities	62,275	59,725
Accrued pension and other postretirement costs	257,096	257,789
Total liabilities	1,441,637	1,418,184
Redeemable convertible debentures	88,362	88,659
Stockholders' equity:		
Vishay stockholders' equity		
Common stock	13,405	13,385
Class B convertible common stock	1,213	1,213
Capital in excess of par value	1,953,670	1,952,988
(Accumulated deficit) retained earnings	(279,457)	(307,417)
Accumulated other comprehensive income (loss)	(74,753)	(94,652)
Total Vishay stockholders' equity	1,614,078	1,565,517
Noncontrolling interests	5,671	5,441
Total equity	1,619,749	1,570,958
Total liabilities, temporary equity, and equity	$3,149,748	$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	
	April 1, 2017	April 2, 2016
Net revenues	$606,258	$570,606
Costs of products sold	445,383	433,297
Gross profit	160,875	137,309
Selling, general, and administrative expenses	94,718	90,286
Restructuring and severance costs	1,469	6,475
Operating income (loss)	64,688	40,548
Other income (expense):		
Interest expense	(6,790)	(6,466)
Other	(396)	779
Gain on early extinguishment of debt	-	3,611
Loss on disposal of equity affiliate	(7,060)	-
Total other income (expense)	(14,246)	(2,076)
Income before taxes	50,442	38,472
Income tax expense	13,493	10,320
Net earnings	36,949	28,152
Less: net earnings attributable to noncontrolling interests	230	138
Net earnings attributable to Vishay stockholders	$36,719	$28,014
Basic earnings per share attributable to Vishay stockholders	$0.25	$0.19
Diluted earnings per share attributable to Vishay stockholders	$0.24	$0.19
Weighted average shares outstanding - basic	146,274	147,833
Weighted average shares outstanding - diluted	154,876	150,628
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	
	April 1, 2017	April 2, 2016
Net earnings	$36,949	$28,152
Other comprehensive income, net of tax		
Pension and other post-retirement actuarial items	2,335	1,868
Foreign currency translation adjustment	17,293	32,532
Unrealized gain on available-for-sale securities	271	627
Other comprehensive income	19,899	35,027
Comprehensive income	56,848	63,179
Less: comprehensive income attributable to noncontrolling interests	230	138
Comprehensive income attributable to Vishay stockholders	$56,618	$63,041

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

	Fiscal quarters ended	
	April 1, 2017	April 2, 2016 (recast - see Note 1)
Operating activities		
Net earnings	$36,949	$28,152
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	40,212	40,017
(Gain) loss on disposal of property and equipment	60	(22)
Accretion of interest on convertible debentures	1,211	1,120
Inventory write-offs for obsolescence	4,834	5,816
Loss on disposal of equity affiliate	7,060	-
Gain on early extinguishment of debt	-	(3,611)
Other	6,333	(13,508)
Net change in operating assets and liabilities, net of effects of businesses acquired	(52,985)	(37,264)
Net cash provided by operating activities	43,674	20,700
Investing activities		
Capital expenditures	(16,668)	(19,756)
Proceeds from sale of property and equipment	943	64
Purchase of short-term investments	(151,886)	(24,588)
Maturity of short-term investments	147,530	117,676
Other investing activities	(5,971)	2,975
Net cash provided by (used in) investing activities	(26,052)	76,371
Financing activities		
Principal payments on long-term debt and capital leases	-	(22,595)
Net proceeds (payments) on revolving credit lines	20,000	(12,000)
Net changes in short-term borrowings	8	(719)
Dividends paid to common stockholders	(8,378)	(8,473)
Dividends paid to Class B common stockholders	(758)	(758)
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	7,646	(44,987)
Effect of exchange rate changes on cash and cash equivalents	2,337	3,705
Net increase (decrease) in cash and cash equivalents	27,605	55,789
Cash and cash equivalents at beginning of period	471,781	475,507
Cash and cash equivalents at end of period	$499,386	$531,296

See accompanying notes.

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	-	-	-	36,719	-	36,719	230	36,949
Other comprehensive income	-	-	-	-	19,899	19,899	-	19,899
Temporary equity reclassification	-	-	297	-	-	297	-	297
Issuance of stock and related tax withholdings for vested restricted stock units (200,688 shares)	20	-	(1,991)	-	-	(1,971)	-	(1,971)
Dividends declared ($ 0.0625 per share)	-	-	9	(9,145)	-	(9,136)	-	(9,136)
Stock compensation expense	-	-	2,367	-	-	2,367	-	2,367
Balance at April 1, 2017	$ 13,405	$ 1,213	$ 1,953,670	$ (279,457)	$ (74,753)	$ 1,614,078	$ 5,671	$ 1,619,749

See accompanying notes.
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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 ended April 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 fiscal quarter ended April 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	
	April 1, 2017	April 2, 2016
MOSFETs Enhanced Competitiveness Program	$420	$3,915
Global Cost Reduction Programs	1,049	2,560
Total	$1,469	$6,475

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	420
Cash paid	(1,431)
Foreign currency translations	-
Balance at April 1, 2017	$5,221

Severance benefits are generally paid in a lump sum at cessation of employment. Other exit costs of $64 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 April 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	1,049
Cash paid	(3,557)
Foreign currency translation	64
Balance at April 1, 2017	$3,820

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

	Fiscal quarters ended	
	April 1, 2017	April 2, 2016
Diodes	$-	$448
Optoelectronic Components	-	178
Resistors & Inductors	851	1,018
Capacitors	161	334
Unallocated Selling, General, and Administrative Expenses	37	582
Total	$1,049	$2,560

Severance benefits are generally paid in a lump sum at cessation of employment. The current portion of the liability is $3,076 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 April 1, 2017 and April 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 quarters ended April 1, 2017 and April 2, 2016 includes $968 and $769, respectively, for the periodic remeasurement of the deferred tax liability recorded for the cash repatriation program. 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 three fiscal months ended April 1, 2017, the liabilities for unrecognized tax benefits increased by $1,074 on a net basis, due to 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:

	April 1, 2017	December 31, 2016
Credit facility	$163,000	$143,000
Convertible senior debentures, due 2040	108,697	108,120
Convertible senior debentures, due 2041	55,752	55,442
Convertible senior debentures, due 2042	61,638	61,341
Deferred financing costs	(10,435)	(10,880)
	378,652	357,023
Less current portion	-	-
	$378,652	$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 March 29, 2017 dividend payment: