VISHAY INTERTECHNOLOGY INC
Form 10-Q
May 08, 2018
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 March 31, 2018

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 (State or Other Jurisdiction of Incorporation)	38-1686453 (I.R.S. Employer Identification Number)
63 Lancaster Avenue Malvern, PA 19355-2143 (Address of Principal Executive Offices)	610-644-1300 (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 4, 2018, the registrant had 132,117,715 shares of its common stock and 12,097,427 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
(Unaudited - In thousands)

	March 31, 2018	December 31, 2017 (recast - see Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$839,591	$748,032
Short-term investments	501,221	547,136
Accounts receivable, net	376,537	340,027
Inventories:		
Finished goods	132,996	127,272
Work in process	184,613	170,319
Raw materials	143,039	132,068
Total inventories	460,648	429,659
Prepaid expenses and other current assets	116,948	130,336
Total current assets	2,294,945	2,195,190
Property and equipment, at cost:		
Land	92,929	92,285
Buildings and improvements	617,071	606,168
Machinery and equipment	2,461,857	2,415,769
Construction in progress	94,027	103,058
Allowance for depreciation	(2,358,549)	(2,311,522)
Property and equipment, net	907,335	905,758
Goodwill	147,047	142,742
Other intangible assets, net	73,072	69,754
Other assets	148,111	148,645
Total assets	$3,570,510	$3,462,089

Continues on following page.

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

	March 31, 2018	December 31, 2017 (recast - see Note 1)
Liabilities and equity		
Current liabilities:		
Notes payable to banks	$56	$4
Trade accounts payable	191,935	222,373
Payroll and related expenses	136,386	135,702
Other accrued expenses	161,990	154,230
Income taxes	38,676	50,226
Total current liabilities	529,043	562,535
Long-term debt less current portion	406,385	370,470
U.S. transition tax payable	165,600	151,200
Deferred income taxes	342,207	336,465
Other liabilities	77,425	75,249
Accrued pension and other postretirement costs	283,754	281,701
Total liabilities	1,804,414	1,777,620
Redeemable convertible debentures	250,990	252,070
Stockholders' equity:		
Vishay stockholders' equity		
Common stock	13,212	13,188
Class B convertible common stock	1,210	1,213
Capital in excess of par value	1,753,762	1,752,506
(Accumulated deficit) retained earnings	(307,833)	(362,254)
Accumulated other comprehensive income (loss)	52,544	25,714
Total Vishay stockholders' equity	1,512,895	1,430,367
Noncontrolling interests	2,211	2,032
Total equity	1,515,106	1,432,399
Total liabilities, temporary equity, and equity	$3,570,510	$3,462,089

See accompanying notes.

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

	Fiscal quarters ended	
	March 31, 2018	April 1, 2017 (recast - see Note 1)
Net revenues	$716,795	$604,801
Costs of products sold	511,495	443,052
Gross profit	205,300	161,749
Selling, general, and administrative expenses	101,238	92,702
Restructuring and severance costs	-	1,469
Operating income	104,062	67,578
Other income (expense):		
Interest expense	(7,677)	(6,790)
Other components of net periodic pension cost	(3,519)	(2,890)
Other	(847)	(396)
Loss on disposal of equity affiliate	-	(7,060)
Total other income (expense)	(12,043)	(17,136)
Income before taxes	92,019	50,442
Income tax expense	29,474	13,493
Net earnings	62,545	36,949
Less: net earnings attributable to noncontrolling interests	179	230
Net earnings attributable to Vishay stockholders	$62,366	$36,719
Basic earnings per share attributable to Vishay stockholders	$0.43	$0.25
Diluted earnings per share attributable to Vishay stockholders	$0.39	$0.24
Weighted average shares outstanding - basic	144,327	146,274
Weighted average shares outstanding - diluted	159,502	154,876
Cash dividends per share	$0.0675	$0.0625

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

	Fiscal quarters ended	
	March 31, 2018	April 1, 2017
Net earnings	$62,545	$36,949
Other comprehensive income, net of tax		
Pension and other post-retirement actuarial items	1,607	2,335
Foreign currency translation adjustment	27,024	17,293
Unrealized gain on available-for-sale securities	-	271
Other comprehensive income	28,631	19,899
Comprehensive income	91,176	56,848
Less: comprehensive income attributable to noncontrolling interests	179	230
Comprehensive income attributable to Vishay stockholders	$90,997	$56,618

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

	Fiscal quarters ended					
	March 31, 2018			April 1, 2017		
Operating activities						
Net earnings	$	62,545		$	36,949	
Adjustments to reconcile net earnings to net cash provided by operating activities:						
Depreciation and amortization		40,558			40,212	
(Gain) loss on disposal of property and equipment		(176	)		60	
Accretion of interest on convertible debentures		1,309			1,211	
Inventory write-offs for obsolescence		5,457			4,834	
Loss on disposal of equity affiliate		-			7,060	
Deferred income taxes		7,014			4,307	
Other		2,908			2,026	
Net change in operating assets and liabilities, net of effects of businesses acquired		(72,756	)		(52,985	)
Net cash provided by operating activities		46,859			43,674	
Investing activities						
Capital expenditures		(28,273	)		(16,668	)
Proceeds from sale of property and equipment		184			943	
Purchase of businesses, net of cash received		(12,072	)		-	
Purchase of short-term investments		(39,243	)		(151,886	)
Maturity of short-term		93,194			147,530	

investments						
Other investing activities		(935	)		(5,971	)
Net cash provided by (used in) investing activities		12,855			(26,052	)
Financing activities						
Net proceeds (payments) on revolving credit lines		34,000			20,000	
Net changes in short-term borrowings		52			8	
Dividends paid to common stockholders		(8,918	)		(8,378	)
Dividends paid to Class B common stockholders		(817	)		(758	)
Cash withholding taxes paid when shares withheld for vested equity awards		(2,297	)		(1,971	)
Other financing activities		-			(1,255	)
Net cash provided by financing activities		22,020			7,646	
Effect of exchange rate changes on cash and cash equivalents		9,825			2,337	
Net increase in cash and cash equivalents		91,559			27,605	
Cash and cash equivalents at beginning of period		748,032			471,781	
Cash and cash equivalents at end of period	$	839,591		$	499,386	

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, 2015	$13,546	$1,213	$2,058,492	$(319,448)	$(131,327)	$1,622,476	$5,567	$1,628,043
Cumulative effect of accounting change for adoption of ASU 2014-09 (see Notes 1 and 2)	-	-	-	2,210	-	2,210	-	2,210
Net earnings	-	-	-	48,792	-	48,792	581	49,373
Other comprehensive income	-	-	-	-	36,675	36,675	-	36,675
Distributions to noncontrolling interests	-	-	-	-	-	-	(707)	(707)
Common stock repurchase (1,752,454 shares)	(175)	-	(22,984)	-	-	(23,159)	-	(23,159)
Temporary equity reclassification	-	-	(88,659)	-	-	(88,659)	-	(88,659)
Issuance of stock and related tax withholdings for vested restricted stock units (110,825 shares)	11	-	(553)	-	-	(542)	-	(542)
Dividends declared ($0.2500 per share)	-	-	36	(36,761)	-	(36,725)	-	(36,725)
Stock compensation expense	-	-	6,380	-	-	6,380	-	6,380
Stock options exercised (27,619 shares)	3	-	353	-	-	356	-	356

Tax effects of stock plan	-	-	(77)	-	-	(77)	-	(77)
Balance at December 31, 2016 (recast - see Note 1)	$13,385	$1,213	$1,952,988	$(305,207)	$(94,652)	$1,567,727	$5,441	$1,573,168
Cumulative effect of accounting change for adoption of ASU 2016-09	-	-	-	386	-	386	-	386
Net earnings (loss)	-	-	-	(20,344)	-	(20,344)	784	(19,560)
Other comprehensive income	-	-	-	-	120,366	120,366	-	120,366
Distributions to noncontrolling interests	-	-	-	-	-	-	(1,140)	(1,140)
Acquisition of noncontrolling interests	-	-	(1,047)	-	-	(1,047)	(3,053)	(4,100)
Common stock repurchase (2,250,236 shares)	(225)	-	(39,719)	-	-	(39,944)	-	(39,944)
Temporary equity reclassification	-	-	(163,411)	-	-	(163,411)	-	(163,411)
Issuance of stock and related tax withholdings for vested restricted stock units (200,688 shares)	20	-	(1,991)	-	-	(1,971)	-	(1,971)
Dividends declared ($0.2550 per share)	-	-	40	(37,089)	-	(37,049)	-	(37,049)
Stock compensation expense	-	-	4,394	-	-	4,394	-	4,394
Stock options exercised (77,334 shares)	8	-	1,252	-	-	1,260	-	1,260
Balance at December 31, 2017 (recast - see Note 1)	$13,188	$1,213	$1,752,506	$(362,254)	$25,714	$1,430,367	$2,032	$1,432,399
	-	-	-	1,801	(1,801)	-	-	-

Cumulative effect of accounting change for adoption of ASU 2016-01 (see Notes 1 and 6)								
Net earnings	-	-	-	62,366	-	62,366	179	62,545
Other comprehensive income	-	-	-	-	28,631	28,631	-	28,631
Conversion of Class B shares (31,800 shares)	3	(3)	-	-	-	-	-	-
Temporary equity reclassification	-	-	1,080	-	-	1,080	-	1,080
Issuance of stock and related tax withholdings for vested restricted stock units (211,328 shares)	21	-	(2,318)	-	-	(2,297)	-	(2,297)
Dividends declared ($0.0675 per share)	-	-	11	(9,746)	-	(9,735)	-	(9,735)
Stock compensation expense	-	-	2,483	-	-	2,483	-	2,483
Balance at March 31, 2018	$13,212	$1,210	$1,753,762	$(307,833)	$52,544	$1,512,895	$2,211	$1,515,106

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, 2017. The results of operations for the fiscal quarter ended March 31, 2018 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 2018 end on March 31, 2018, June 30, 2018, September 29, 2018, and December 31, 2018, respectively. The four fiscal quarters in 2017 ended on April 1, 2017, July 1, 2017, September 30, 2017, and December 31, 2017, respectively.

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("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 Company retrospectively adopted the ASU on January 1, 2018. The adoption of the ASU did not have a material impact on the Company's results of operations. See Note 2 and "Changes in Accounting Policies" below.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU enhances the reporting model for financial instruments by addressing certain aspects, including requiring equity investments to be measured at fair value with changes in fair value recognized in net income; simplifying the impairment assessment of equity investments without readily determinable fair values; eliminating the requirement to disclose the method and significant assumptions used to estimate the disclosed fair value of financial instruments measured at amortized cost; and requiring the use of the exit price notion for fair value measurements of financial instruments for disclosure purposes. The Company adopted the ASU on January 1, 2018. The Company recognized a cumulative-effect adjustment to January 1, 2018 retained earnings (accumulated deficit) of $1,801 for the cumulative change in fair value of available-for-sale equity investments previously recognized in other comprehensive income. The adoption of the ASU did not have a material impact on the Company's results of operations.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU amends the income statement presentation requirements of net periodic benefit cost of defined benefit pension and other postretirement plans. The Company retrospectively adopted the ASU on January 1, 2018. The adoption of the ASU did not have a material impact on the Company's results of operations. See "Changes in Accounting Policies" below.

Recently Issued Accounting Guidance

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.

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

Changes in Accounting Policies

Except for the changes described in "Recently Adopted Accounting Guidance" above and in this section below, the Company has consistently applied the accounting policies described in its Note 1 to its audited consolidated financial statement included in its annual report on Form 10-K for the year ended December 31, 2017, to all periods presented in these consolidated condensed financial statements.

Revenue Recognition

The Company adopted ASU 2014-09 as of January 1, 2018 using the full retrospective method. As a result, the Company has changed its accounting policy for revenue recognition. The details of significant changes and quantitative impact of the changes are disclosed below.

Service-type warranty performance obligations

ASU 2014-09 introduces the concept of service-type warranties, which represent separate performance obligations. Upon adoption of ASU No. 2014-09, the Company considers its warranty obligations as service-type warranties and allocates a portion of the estimated consideration to be received from the related contract to the service-type warranty performance obligation and recognizes the related revenue over the warranty period. The impact of accounting for service-type warranties as separate performance obligations was not significant in the retrospective adoption period and is included in the tables below. See further discussion of the warranty obligations in Note 2.

Custom products

The Company previously recognized revenue when the sales process was completed, which generally occurred when the product was delivered and risk of loss was transferred to the customer. Upon adoption of ASU 2014-09, the Company analyzes its contractual arrangements to determine whether the promise in the contract to construct and transfer goods to the customer is a performance obligation that will be satisfied over time or at a point in time. When the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date, the Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time. The Company has a limited number of contracts for custom products that meet the criteria to recognize revenue over time. The dollar amount of these custom products did not materially change during the retrospective adoption period. The Company recorded a cumulative-effect adjustment of $2,210 to January 1, 2016 retained earnings (accumulated deficit) and recorded adjustments to its consolidated balance sheets due to the impact of recognizing revenue for certain custom products over time rather than at a point in time.

ASU 2014-09 provides several transition practical expedients. The Company has not restated completed contracts that begin and end in the same annual reporting period; used the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods; has not disclosed the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Company expects to recognize the amount as revenue for the reporting periods presented prior to January 1, 2016; and has not retrospectively restated the contract for modifications made prior to January 1, 2016 and instead reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price pursuant to the transition practical expedients available.

Pension and Other Postretirement Benefits

The Company retrospectively adopted ASU 2017-07 as of January 1, 2018. As a result, the Company has changed its accounting policy for pension and other postretirement benefits costs as detailed below.

ASU 2017-07 amends the income statement presentation requirements of net periodic benefit cost of defined benefit pension and other postretirement plans. The service cost component of net periodic pension cost is recorded in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and other components of net periodic pension cost are included on a separate line within other income (expense). The Company reclassified net benefit costs other than the current service component previously reported as cost of goods sold and selling, general, and administrative expenses to other expenses for each quarter in the retrospective adoption period in the table below. The Company also reclassified the $79,321 U.S. pension settlement charges recorded for the year ended December 31, 2016 to other expenses. See the impact of this change in the tables below.

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

The retrospective adoption of ASUs 2014-09 and 2017-07 did not impact net earnings (loss) attributed to Vishay stockholders. See the combined impact of the retrospective adoption in the tables below:

	Fiscal quarters ended									
	April 1, 2017			July 1, 2017			September 30, 2017			Decemb
	As Reported	Adjustments	Recast	As Reported	Adjustments	Recast	As Reported	Adjustments	Recast	As Reportec
Net revenues	$606,258	$(1,457)	$604,801	$644,892	$(1,728)	$643,164	$677,883	$58	$677,941	$674,48
Costs of products sold	445,383	(2,331)	443,052	471,929	(2,602)	469,327	488,610	(816)	487,794	497,98
Gross profit	160,875	874	161,749	172,963	874	173,837	189,273	874	190,147	176,50
Operating income	64,688	2,890	67,578	82,036	2,969	85,005	92,328	3,088	95,416	72,536
Total other income (expense)	(14,246)	(2,890)	(17,136)	(6,327)	(2,969)	(9,296)	(6,140)	(3,088)	(9,228)	(5,511
Income before taxes	50,442	-	50,442	75,709	-	75,709	86,188	-	86,188	67,025
Income tax expense	13,493	-	13,493	19,300	-	19,300	21,605	-	21,605	244,52
Net earnings (loss)	36,949	-	36,949	56,409	-	56,409	64,583	-	64,583	(177,50
Less: net earnings attributable to noncontrolling interests	230	-	230	219	-	219	179	-	179	156
Net earnings (loss) attributable to Vishay stockholders	$36,719	$-	$36,719	$56,190	$-	$56,190	$64,404	$-	$64,404	$(177,65

	Years ended					
	December 31, 2016			December 31, 2017		
	As Reported	Adjustments	Recast	As Reported	Adjustments	Recast
Net revenues	$2,323,431	$ (6,103)	$2,317,328	$2,603,522	$ (4,154)	$2,599,368
Costs of products sold	1,753,648	(10,142)	1,743,506	1,903,910	(7,651)	1,896,259
Gross profit	569,783	4,039	573,822	699,612	3,497	703,109
Operating income	101,717	95,341	197,058	311,588	12,417	324,005
Total other income (expense)	(7,501)	(95,341)	(102,842)	(32,224)	(12,417)	(44,641)
Income before taxes	94,216	-	94,216	279,364	-	279,364
Income tax expense	44,843	-	44,843	298,924	-	298,924
Net earnings (loss)	49,373	-	49,373	(19,560)	-	(19,560)
	581	-	581	784	-	784

Less: net earnings attributable to noncontrolling interests						
Net earnings (loss) attributable to Vishay stockholders	$48,792	$ -	$48,792	$(20,344)	$ -	$(20,344)

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 – Revenue Recognition

As of January 1, 2018, the Company recognizes revenue from contracts with customers in accordance with ASU 2014-09. The Company has framework agreements with many of its customers that contain the terms and conditions of future sales, but do not create enforceable rights or obligations. Per ASU 2014-09, the Company's contracts are the combined purchase orders and the terms and conditions contained within such framework agreements.

Payment terms for the Company's sales are generally less than sixty days. Substantially all of the Company's receivables are collected within twelve months of the transfer of products to the customer and the Company expects this to continue going forward. The Company applies the practical expedient within ASU 2014-09 to all of its contracts with payment terms less than or equal to twelve months and does not recognize a financing component of the transaction price.

Revenue is measured based on the consideration specified in contracts with customers, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies its performance obligations.

The Company's contracts contain two performance obligations: delivery of products and warranty protection. The Company does not sell separate, enhanced, or extended warranty coverage, but through its customary business practices, the Company has created implied service-type warranties, which are accounted for as separate performance obligations. Revenue is allocated between these two performance obligations and recognized as the obligations are satisfied. The allocation of revenue to warranty protection is based on an estimate of expected cost plus margin. The delivery of products performance obligation is satisfied and product sales revenue is recognized when the customer takes control of the products. Warranty revenue is deferred and the warranty protection performance obligation is satisfied and revenue is recognized over the warranty period, which is typically less than twenty-four months from sale to end customer. The warranty deferred revenue liability is recorded within Other Accrued Expenses and Other Liabilities on the accompanying consolidated condensed balance sheets. The deferred revenue balance associated with the service-type warranty performance obligations and the components that comprise the change in the deferred revenue balance are not significant.

The Company has a broad line of products that it sells to original equipment manufacturers ("OEMs"), electronic manufacturing services ("EMS") companies, which manufacture for OEMs on an outsourcing basis, and independent distributors that maintain large inventories of electronic components for resale to OEMs and EMS companies.

The Company has and will continue to recognize revenue on sales to distributors when the distributor takes control of the products ("sold-to" model). The Company has agreements with distributors that allow distributors a limited credit for unsaleable products, which it terms a "scrap allowance." Consistent with industry practice, the Company also has a "stock, ship and debit" program whereby it considers requests by distributors for credits on previously purchased products that remain in distributors' inventory, to enable the distributors to offer more competitive pricing. In addition, the Company has contractual arrangements whereby it provides distributors with protection against price reductions initiated by the Company after product is sold by the Company to the distributor and prior to resale by the distributor.

The Company recognizes the estimated variable consideration to be received as revenue and records a related accrued expense for the consideration not expected to be received, based upon its estimate of product returns, scrap allowances, "stock, ship and debit" credits, and price protection credits that will be attributable to sales recorded through the end of the period. The Company makes these estimates based upon sales levels to its distributors during the period, inventory levels at the distributors, current and projected market conditions, and historical experience under the programs. While the Company utilizes a number of different methodologies to estimate the accruals, all of

the methodologies take into account sales levels to distributors during the relevant period, inventory levels at the distributors, current and projected market trends and conditions, recent and historical activity under the relevant programs, changes in program policies, and open requests for credits. These procedures require the exercise of significant judgments. The Company believes that it has a reasonable basis to estimate future credits under the programs.
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Distributor sales accrual activity is shown below:

	Fiscal quarters ended		Years Ended December 31,	
	March 31, 2018	April 1, 2017	2017	2016
Beginning balance	$36,680	$34,479	$34,479	$32,487
Sales allowances	24,188	21,520	89,009	86,896
Credits issued	(28,450)	(23,471)	(87,403)	(85,341)
Foreign currency	288	(576)	595	437
Ending balance	$32,706	$31,952	$36,680	$34,479

The Company pays commissions to external sales representatives on a per-sale basis. The Company applies the practical expedient available within ASU 2014-09 to all commissions paid as the future amortization period of the asset that the Company otherwise would have recognized is one year or less. Accordingly, these commissions are expensed as incurred. Internal staff are not paid commissions.

The Company has elected to account for shipping and handling as activities to fulfill the promise to transfer the product even if the shipping and handling activities are performed after the customer obtains control. The Company does not evaluate whether shipping and handling activities are promised services to its customers. If control transfers and revenue is recognized for the related products before the shipping and handling activities occur, the related costs of those shipping and handling activities is accrued. The Company applies this accounting policy election consistently to similar types of transactions.

See disaggregated revenue information in Note 10.

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Note 3 – Acquisition Activities

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

On February 8, 2018, the Company acquired substantially all of the assets and liabilities of UltraSource, Inc., a U.S.-based, privately-held thin film circuit and thin film interconnect manufacturer, for $13,372, subject to customary post-closing adjustments. Based on an estimate of their fair values, the Company allocated $6,500 of the purchase price to definite-lived intangible assets. After allocating the purchase price to the assets acquired and liabilities assumed based on an estimation of their fair values at the date of acquisition, the Company recorded goodwill of $4,003 related to this acquisition. The results and operations of this acquisition have been included in the Resistors & Inductors segment since February 8, 2018. The inclusion of this acquisition did not have a material impact on the Company's consolidated results for the fiscal quarter ended March 31, 2018. The goodwill related to this acquisition is included in the Resistors & Inductors reporting unit for goodwill impairment testing. The preliminary allocation is pending finalization of a working capital adjustment. There can be no assurance that the estimated amounts recorded represent the final purchase allocation.

Had this acquisition occurred as of the beginning of the periods presented in these consolidated condensed financial statements, the pro forma statements of operations would not be materially different than the consolidated condensed statements of operations presented.

The remaining fluctuation in the goodwill account balance is due to foreign currency translation.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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Note 4 – 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. As of December 31, 2017, the Company's restructuring programs were substantially completed.

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 quarter ended April 1, 2017
MOSFETs Enhanced Competitiveness Program	$420
Global Cost Reduction Programs	1,049
Total	$1,469

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.

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 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 included 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 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	3,204
Cash paid	(7,173)
Balance at December 31, 2017	$2,263
Cash paid	(283)
Balance at March 31, 2018	$1,980

Severance benefits are generally paid in a lump sum at cessation of employment. The entire liability is considered current and is included in other accrued expenses in the accompanying consolidated condensed balance sheets.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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Global Cost Reduction Programs

The global cost reduction programs announced in 2015 included 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. These programs were substantially implemented as of December 31, 2017.

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	8,069
Cash paid	(7,168)
Foreign currency translation	500
Balance at December 31, 2017	$7,665
Cash paid	(1,027)
Foreign currency translation	148
Balance at March 31, 2018	$6,786

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

	Fiscal quarter ended April 1, 2017
Resistors & Inductors	$851
Capacitors	161
Unallocated Selling, General, and Administrative Expenses	37
Total	$1,049

Severance benefits are generally paid in a lump sum at cessation of employment, though some are being paid in installments. The current portion of the liability is $4,222 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.

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Note 5 – Income Taxes

The provision for income taxes consists of provisions for federal, state, and foreign income taxes. The effective tax rates for the periods ended March 31, 2018 and April 1, 2017 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.

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted in the United States. The TCJA represents sweeping changes in U.S. tax law. Among the numerous changes in tax law, the TCJA permanently reduced the U.S. corporate income tax rate to 21% beginning in 2018; imposed a one-time transition tax on deferred foreign earnings; established a partial territorial tax system by allowing a 100% dividends received deduction on qualifying dividends paid by foreign subsidiaries; limited deductions for net interest expense; and expanded the U.S. taxation of foreign earned income to include "global intangible low-taxed income" ("GILTI") of foreign subsidiaries.

The TCJA represents the first significant change in U.S. tax law in over 30 years. As permitted by SAB No. 118, the tax expense recorded in the fourth fiscal quarter of 2017 due to the enactment of the TCJA was considered "provisional," based on reasonable estimates. The Company is continuing to collect and analyze detailed information about the earnings and profits of its non-U.S. subsidiaries, the related taxes paid, the amounts which could be repatriated, the foreign taxes which may be incurred on repatriation, and the associated impact of these items under the TCJA. The Company may record adjustments to refine those estimates during the measurement period, as additional analysis is completed. No adjustments were recorded during the first fiscal quarter of 2018.

Furthermore, the Company is continuing to evaluate the TCJA's provisions and may prospectively adjust its financial and capital structure and business practices accordingly.

The TCJA transitions the U.S. from a worldwide tax system to a partial territorial tax system. Under previous law, companies could indefinitely defer U.S. income taxation on unremitted foreign earnings. The TCJA imposes a one-time transition tax on deferred foreign earnings of 15.5% for liquid assets and 8% for illiquid assets, payable in defined increments over eight years. As a result of this requirement, the Company recognized provisional tax expense of $215,558 in 2017, and provisionally expects to pay $180,000, net of estimated applicable foreign tax credits, and after utilization of net operating loss, R&D credits, and foreign tax credit carryforwards. These previously deferred foreign earnings may now be repatriated to the United States without additional U.S. federal taxation. However, any such repatriation could incur withholding and other foreign taxes in the source and intervening foreign jurisdictions, and certain U.S. state taxes.

Due to the changes in taxation of dividends received from foreign subsidiaries, and also because of the need to finance the payment of the transition tax, the Company made the determination during the fourth fiscal quarter of 2017 that certain unremitted foreign earnings in Israel, Germany, Austria, and France are no longer permanently reinvested, and recorded provisional tax expense of $213,000 to accrue the incremental foreign income taxes and withholding taxes payable to foreign jurisdictions assuming the hypothetical repatriation to the United States of these approximately $1,100,000 of available foreign earnings. Due to the existence of the foreign cash taxes payable at the source, the Company expects to actually repatriate these amounts at a measured pace over several years, and may decide to ultimately not repatriate some of these amounts. The Company terminated its previous cash repatriation program and recorded a provisional income tax benefit to reverse the associated deferred tax liability as a result of this planned repatriation. No amounts were repatriated pursuant to this program in the first fiscal quarter of 2018.

The Company's effective tax rate for the period ended March 31, 2018 was negatively impacted by certain provisions of the TCJA. The provisions of the TCJA are interrelated and the impact of any specific provision cannot be isolated. The Company operates at a pre-tax loss in the U.S. and the reduction in the federal tax rate reduces the tax benefit recorded. In addition, the inclusion of GILTI income and the limitation and the deductibility of interest expense increased the effective tax rate. The Company has elected to account for GILTI tax in the period in which it is incurred, and therefore did not provide any deferred taxes in the consolidated financial statements at December 31, 2017.

Income tax expense for the fiscal quarter ended March 31, 2018, includes tax expense of $1,316 for the periodic remeasurement of the deferred tax liability recorded for the foreign taxes associated with the cash repatriation program described above, primarily due to the foreign currency effects.

Income tax expense for the fiscal quarter ended April 1, 2017 included a tax benefit of $968 for the periodic remeasurement of the deferred tax liability recorded for the cash repatriation program that was terminated as a result of the enactment of the TCJA.

During the three fiscal months ended March 31, 2018, the liabilities for unrecognized tax benefits increased by $568 on a net basis, due to increases for tax positions taken in the current period, interest, and foreign currency effects.

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Note 6 – Long-Term Debt

Long-term debt consists of the following:

	March 31, 2018	December 31, 2017
Credit facility	$184,000	$150,000
Convertible senior debentures, due 2040	111,157	110,412
Convertible senior debentures, due 2041	57,031	56,641
Convertible senior debentures, due 2042	62,853	62,518
Deferred financing costs	(8,656)	(9,101)
	406,385	370,470
Less current portion	-	-
	$406,385	$370,470

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, 2018 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 March 14, 2018 (per $1 principal amount)	77.4680	56.5321	91.0838
Effective conversion price effective March 14, 2018 (per share)	$12.91	$17.69	$10.98
130% of the conversion price (per share)	$16.78	$23.00	$14.27
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, and have remained convertible for each subsequent quarterly evaluation through the March 31, 2018 evaluation, due to the sale price of Vishay's common stock exceeding 130% of the conversion price for the applicable periods. The convertible debentures due 2040 became convertible subsequent to the September 30, 2017 evaluation of the conversion criteria, and have remained convertible for each subsequent quarterly evaluation through the March 31, 2018 evaluation, due to the sale price of Vishay's common stock exceeding 130% of the conversion price for the applicable periods. The debentures due 2040 and due 2042 will remain convertible until June 30, 2018, 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 2040 and 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 2040 and due 2042 continues to be classified as a non-current liability on the consolidated condensed balance sheets.

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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
March 31, 2018					
Due 2040	$ 275,000	(164,143)	300	$ 111,157	$ 110,094
Due 2041	$ 150,000	(93,239)	270	$ 57,031	$ 62,246
Due 2042	$ 150,000	(87,276)	129	$ 62,853	$ 57,874
Total	$ 575,000	$ (344,658)	$ 699	$ 231,041	$ 230,214
December 31, 2017					
Due 2040	$ 275,000	(164,794)	206	$ 110,412	$ 110,094
Due 2041	$ 150,000	(93,573)	214	$ 56,641	$ 62,246
Due 2042	$ 150,000	(87,600)	118	$ 62,518	$ 57,874
Total	$ 575,000	$ (345,967)	$ 538	$ 229,571	$ 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
March 31, 2018					
Due 2040	$ 1,547	651	22	94	$ 2,314
Due 2041	$ 844	334	12	56	$ 1,246
Due 2042	$ 844	324	13	11	$ 1,192
Total	$ 3,235	$ 1,309	$ 47	$ 161	$ 4,752