

VISHAY INTERTECHNOLOGY INC  
Form 10-Q  
July 29, 2014  
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 June 28, 2014

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 610-644-1300  
Malvern, PA 19355-2143  
(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.  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).  
 Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

“ Yes ý No

As of July 25, 2014, the registrant had 135,319,976 shares of its common stock and 12,129,227 shares of its Class B common stock outstanding.

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VISHAY INTERTECHNOLOGY, INC.  
 FORM 10-Q  
 June 28, 2014  
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## PART I - FINANCIAL INFORMATION

Item 1. Financial StatementsVISHAY INTERTECHNOLOGY, INC.  
Consolidated Condensed Balance Sheets  
(In thousands)

	June 28, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$659,593	\$640,348
Short-term investments	514,397	511,231
Accounts receivable, net	305,395	274,083
Inventories:		
Finished goods	127,263	109,617
Work in process	200,643	197,600
Raw materials	130,981	125,491
Total inventories	458,887	432,708
Deferred income taxes	22,101	21,716
Prepaid expenses and other current assets	109,667	100,594
Total current assets	2,070,040	1,980,680
Property and equipment, at cost:		
Land	93,634	93,685
Buildings and improvements	568,303	560,418
Machinery and equipment	2,383,121	2,340,778
Construction in progress	71,868	95,278
Allowance for depreciation	(2,217,024)	(2,163,540)
	899,902	926,619
Goodwill	52,581	43,132
Other intangible assets, net	126,720	129,951
Other assets	160,259	156,757
Total assets	\$3,309,502	\$3,237,139

Continues on following page.

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

	June 28, 2014 (Unaudited)	December 31, 2013
Liabilities and equity		
Current liabilities:		
Notes payable to banks	\$ 19	\$ 2
Trade accounts payable	161,377	163,894
Payroll and related expenses	128,229	120,997
Other accrued expenses	150,188	146,670
Income taxes	17,926	17,502
Total current liabilities	457,739	449,065
Long-term debt less current portion	386,806	364,911
Deferred income taxes	159,110	157,640
Other liabilities	103,806	99,426
Accrued pension and other postretirement costs	283,416	287,901
Total liabilities	1,390,877	1,358,943
Stockholders' equity:		
Vishay stockholders' equity		
Common stock	13,532	13,520
Class B convertible common stock	1,213	1,213
Capital in excess of par value	2,055,354	2,054,087
(Accumulated deficit) retained earnings	(213,954 )	(257,698 )
Accumulated other comprehensive income (loss)	57,243	61,634
Total Vishay stockholders' equity	1,913,388	1,872,756
Noncontrolling interests	5,237	5,440
Total equity	1,918,625	1,878,196
Total liabilities and equity	\$ 3,309,502	\$ 3,237,139

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	
	June 28, 2014	June 29, 2013
Net revenues	\$641,929	\$597,665
Costs of products sold	477,836	454,808
Gross profit	164,093	142,857
Selling, general, and administrative expenses	97,156	92,745
Restructuring and severance costs	9,014	-
Executive compensation credit	-	(1,778 )
Operating income	57,923	51,890
Other income (expense):		
Interest expense	(5,821 )	(5,824 )
Other	208	784
	(5,613 )	(5,040 )
Income before taxes	52,310	46,850
Income tax expense	16,478	15,365
Net earnings	35,832	31,485
Less: net earnings attributable to noncontrolling interests	190	176
Net earnings attributable to Vishay stockholders	\$35,642	\$31,309
Basic earnings per share attributable to Vishay stockholders	\$0.24	\$0.22
Diluted earnings per share attributable to Vishay stockholders	\$0.23	\$0.21
Weighted average shares outstanding - basic	147,567	143,710
Weighted average shares outstanding - diluted	154,322	151,880
Cash dividends per share	\$0.06	\$-

See accompanying notes.



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

	Fiscal quarters ended	
	June 28, 2014	June 29, 2013
Net earnings	\$35,832	\$31,485
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	(7,479 )	10,450
Pension and other post-retirement actuarial items	1,357	2,941
Unrealized gain (loss) on available-for-sale securities	660	(644 )
Other comprehensive income (loss)	(5,462 )	12,747
Comprehensive income	30,370	44,232
Less: comprehensive income attributable to noncontrolling interests	190	176
Comprehensive income attributable to Vishay stockholders	\$30,180	\$44,056

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

	Six fiscal months ended	
	June 28, 2014	June 29, 2013
Net revenues	\$1,244,307	\$1,151,919
Costs of products sold	934,931	872,328
Gross profit	309,376	279,591
Selling, general, and administrative expenses	193,463	183,874
Restructuring and severance costs	15,418	-
Executive compensation credit	-	(1,778 )
Operating income	100,495	97,495
Other income (expense):		
Interest expense	(11,801 )	(11,310 )
Other	1,520	899
	(10,281 )	(10,411 )
Income before taxes	90,214	87,084
Income taxes	28,418	26,458
Net earnings	61,796	60,626
Less: net earnings attributable to noncontrolling interests	344	386
Net earnings attributable to Vishay stockholders	\$61,452	\$60,240
Basic earnings per share attributable to Vishay stockholders	\$0.42	\$0.42
Diluted earnings per share attributable to Vishay stockholders	\$0.40	\$0.40
Weighted average shares outstanding - basic	147,561	143,651
Weighted average shares outstanding - diluted	153,438	151,256
Cash dividends per share	\$0.12	\$-

See accompanying notes.

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

	Six fiscal months ended	
	June 28, 2014	June 29, 2013
Net earnings	\$61,796	\$60,626
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	(8,439 )	(14,671 )
Pension and other post-retirement actuarial items	2,860	6,172
Unrealized gain (loss) on available-for-sale securities	1,188	(214 )
Other comprehensive loss	(4,391 )	(8,713 )
Comprehensive income	57,405	51,913
Less: comprehensive income attributable to noncontrolling interests	344	386
Comprehensive income attributable to Vishay stockholders	\$57,061	\$51,527

See accompanying notes.

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

	Six fiscal months ended	
	June 28, 2014	June 29, 2013
Operating activities		
Net earnings	\$61,796	\$60,626
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	86,931	83,456
Loss on disposal of property and equipment	23	86
Accretion of interest on convertible debentures	1,933	1,787
Inventory write-offs for obsolescence	9,867	9,479
Other	1,312	(3,929 )
Net change in operating assets and liabilities, net of effects of businesses acquired	(62,789 )	(57,437 )
Net cash provided by operating activities	99,073	94,068
Investing activities		
Capital expenditures	(53,336 )	(47,173 )
Proceeds from sale of property and equipment	1,741	3,252
Purchase of businesses, net of cash acquired	(20,776 )	(23,034 )
Purchase of short-term investments	(243,975)	(361,940)
Maturity of short-term investments	236,624	190,602
Other investing activities	927	934
Net cash used in investing activities	(78,795 )	(237,359)
Financing activities		
Principal payments on long-term debt and capital leases	(11 )	(14 )
Net proceeds on revolving credit lines	20,000	11,000
Net changes in short-term borrowings	16	698
Dividends paid to common stockholders	(16,238 )	-
Dividends paid to Class B common stockholders	(1,456 )	-
Excess tax benefit from RSUs vested	-	456
Distributions to noncontrolling interests	(547 )	-
Net cash provided by financing activities	1,764	12,140
Effect of exchange rate changes on cash and cash equivalents	(2,797 )	(5,245 )
Net increase (decrease) in cash and cash equivalents	19,245	(136,396)
Cash and cash equivalents at beginning of period	640,348	697,595
Cash and cash equivalents at end of period	\$659,593	\$561,199

See accompanying notes.

VISHAY INTERTECHNOLOGY, INC.  
 Consolidated Condensed Statement of Equity  
 (Unaudited - In thousands, except 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 January 1, 2014	\$ 13,520	\$ 1,213	\$ 2,054,087	\$(257,698 )	\$ 61,634	\$ 1,872,756	\$ 5,440	\$ 1,878,196
Net earnings	-	-	-	61,452	-	61,452	344	61,796
Other comprehensive loss	-	-	-	-	(4,391 )	(4,391 )	-	(4,391 )
Distributions to noncontrolling interests	-	-	-	-	-	-	(547 )	(547 )
Restricted stock issuances (117,895 shares)	12	-	(384 )	-	-	(372 )	-	(372 )
Dividends declared (\$ 0.12 per share)	-	-	14	(17,708 )	-	(17,694 )	-	(17,694 )
Stock compensation expense	-	-	1,745	-	-	1,745	-	1,745
Tax effects of stock plan	-	-	(108 )	-	-	(108 )	-	(108 )
Balance at June 28, 2014	\$ 13,532	\$ 1,213	\$ 2,055,354	\$(213,954 )	\$ 57,243	\$ 1,913,388	\$ 5,237	\$ 1,918,625

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, 2013. The results of operations for the fiscal quarter and six fiscal months ended June 28, 2014 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 2014 end on March 29, 2014, June 28, 2014, September 27, 2014, and December 31, 2014, respectively. The four fiscal quarters in 2013 ended on March 30, 2013, June 29, 2013, September 28, 2013, and December 31, 2013, respectively.

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 U.S. 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 after January 1, 2017. Vishay is currently evaluating the effect of the ASU on its revenue contracts.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current financial statements presentation.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Note 2 – 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.

Holy Stone Polytech Co., Ltd.

On June 11, 2014, Vishay acquired Holy Stone Polytech Co., Ltd. ("Holy Stone Polytech"), a Japanese manufacturer of tantalum capacitors and formerly a subsidiary of Holy Stone Enterprise Co. Ltd., for \$20,776, net of cash acquired. The acquisition is expected to strengthen the Company's position in tantalum capacitors, especially in Asia. For financial reporting purposes, the results of operations of Holy Stone Polytech have been included in the Capacitors segment since June 11, 2014. The inclusion of this business did not have a material impact on the Company's consolidated results for the fiscal quarter or six fiscal months ended June 28, 2014. Based on an estimate of their fair values, the Company allocated \$5,183 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 \$9,509 related to this acquisition. The goodwill associated with this transaction is not deductible for income tax purposes. The Company will test the goodwill for impairment at least annually in accordance with GAAP. The preliminary allocation is pending finalization of appraisals for property and equipment and intangible assets, finalization of a working capital adjustment, environmental assessments, and completion of other customary post-closing review activities. 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.

Subsequent Event

On July 11, 2014, Vishay entered into an agreement to acquire Taiwan based Capella Microsystems (Taiwan) Inc. ("Capella") for approximately \$205,000. Capella is a fabless IC design company specializing in optoelectronic products.

Vishay intends to acquire Capella first through a tender offer of up to 100 percent of Capella's outstanding shares at a price of NT\$139 per share. The tender offer is conditioned upon at least a majority of the outstanding shares being tendered. If a majority, but less than 100%, of the outstanding shares are tendered, Vishay will complete the acquisition of Capella by merger according to the Agreement and Plan of Merger executed on July 11, 2014 with Capella. The period to tender outstanding shares began on July 14, 2014 and ends on September 1, 2014, but could be extended pursuant to local regulations. If a majority of the outstanding shares are tendered, the tender offer is expected to close in September 2014 followed by Vishay's acquisition of 100 percent of Capella in a merger by the end of January 2015. The closing of the tender offer and merger are subject to customary closing conditions, including obtaining all necessary governmental approvals and clearances.

## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Note 3 – Restructuring and Related Activities

The Company places a strong emphasis on controlling its costs.

Historically, the Company's primary cost reduction technique was through the transfer of production to the extent possible from high-labor-cost countries, such as the United States and Western Europe, to lower-labor-cost countries, such as the Czech Republic, Hungary, Israel, India, Malaysia, Mexico, the People's Republic of China, and the Philippines. Between 2001 and 2009, the Company recorded, in the consolidated statements of operations, restructuring and severance costs and related asset write-downs in order to reduce its cost structure going forward.

The Company also incurred significant costs to restructure and integrate acquired businesses, which was included in the cost of the acquisitions under then-applicable GAAP.

The Company did not initiate any new restructuring projects in the years ended December 31, 2012, 2011, or 2010.

On October 28, 2013, the Company announced various cost reduction programs as part of its continuous efforts to improve efficiency and operating performance. The cash costs of these programs, primarily severance, are expected to be approximately \$31,700. Complete implementation of all of the programs is expected to occur before the end of the first fiscal quarter of 2016. Many of the severance costs will be recognized ratably over the required stay periods.

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

	Fiscal quarter ended June 28, 2014	Six fiscal months ended June 28, 2014
MOSFETs Enhanced Competitiveness Program	\$ 1,492	\$ 3,219
Voluntary Separation / Retirement Program	7,522	12,199
Total	\$ 9,014	\$ 15,418

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 will be transferred into a more cost-efficient fab. As a consequence, certain other manufacturing currently occurring in-house will be transferred to third-party foundries.

The total severance costs associated with these initiatives are expected to be approximately \$16,000. Employees generally must remain with the Company during the production transfer period. Accordingly, the Company will accrue these severance costs ratably over the respective employees' remaining service periods.

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

Expense recorded in the fourth fiscal quarter of 2013	\$ 2,328
Cash paid	(267 )



Balance at December 31, 2013	\$2,061
Expense	3,219
Cash paid	(113 )
Balance at June 28, 2014	\$5,167

Severance benefits are generally paid in a lump sum at cessation of employment. The current portion of the liability is \$1,243 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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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

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 vary by country and job classification, but generally include a cash loyalty bonus based on years of service. All employees eligible for the program have been identified.

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 short transition period.

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

Expense recorded in the fourth fiscal quarter of 2013	\$486
Cash paid	(98 )
Foreign currency translation	3
Balance at December 31, 2013	\$391
Expense	12,199
Cash paid	(4,974 )
Foreign currency translation	(18 )
Balance at June 28, 2014	\$7,598

The payment terms vary by country, but generally are paid in a lump sum at cessation of employment. The entire amount of the 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

(dollars in thousands, except per share amounts)

Note 4 – Income Taxes

The provision for income taxes consists of provisions for federal, state, and foreign income taxes. The effective tax rates for the periods ended June 28, 2014 and June 29, 2013 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.

As a result of the retroactive enactment of the American Taxpayer Act of 2012, which was signed into law on January 2, 2013, the Company recorded one-time tax benefits of \$1,330 in the consolidated condensed statement of operations during the six fiscal months ended June 29, 2013.

During the six fiscal months ended June 28, 2014, the liabilities for unrecognized tax benefits decreased by \$1,387 on a net basis, principally due to payments offset by increases for interest.

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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Note 5 – Long-Term Debt

Long-term debt consists of the following:

	June 28, 2014	December 31, 2013
Credit facility	\$ 134,000	\$ 114,000
Exchangeable unsecured notes, due 2102	38,642	38,642
Convertible senior debentures, due 2040	102,776	101,846
Convertible senior debentures, due 2041	52,744	52,264
Convertible senior debentures, due 2042	58,644	58,159
	386,806	364,911
Less current portion	-	-
	\$ 386,806	\$ 364,911

## 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 26, 2014 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 10, 2014 (per \$1 principal amount)	72.6207	52.9947	85.3846
Effective conversion price effective June 10, 2014 (per share)	\$ 13.77	\$ 18.87	\$ 11.71
130% of the conversion price (per share)	\$ 17.90	\$ 24.53	\$ 15.22
Call date	November 20, 2020	May 20, 2021	June 7, 2022

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:

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	Principal amount of the debentures	Unamortized discount	Embedded derivative	Carrying value of liability component	Equity component - net carrying value
June 28, 2014					
Due 2040	\$ 275,000	(172,684 )	460	\$ 102,776	\$ 110,094
Due 2041	\$ 150,000	(97,599 )	343	\$ 52,744	\$ 62,246
Due 2042	\$ 150,000	(91,552 )	196	\$ 58,644	\$ 57,874
Total	\$ 575,000	\$ (361,835 )	\$ 999	\$ 214,164	\$ 230,214
December 31, 2013					
Due 2040	\$ 275,000	(173,645 )	491	\$ 101,846	\$ 110,094
Due 2041	\$ 150,000	(98,085 )	349	\$ 52,264	\$ 62,246
Due 2042	\$ 150,000	(92,038 )	197	\$ 58,159	\$ 57,874
Total	\$ 575,000	\$ (363,768 )	\$ 1,037	\$ 212,269	\$ 230,214

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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

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
June 28, 2014					
Due 2040	\$ 1,547	485	22	(76 )	\$ 1,978
Due 2041	\$ 844	245	13	(20 )	\$ 1,082
Due 2042	\$ 844	245	14	(21 )	\$ 1,082
Total	\$ 3,235	\$ 975	\$ 49	\$ (117 )	\$ 4,142

June 29, 2013					
Due 2040	\$ 1,547	448	22	(16 )	\$ 2,001
Due 2041	\$ 844	226	12	1	\$ 1,083
Due 2042	\$ 844	227	14	(3 )	\$ 1,082
Total	\$ 3,235	\$ 901	\$ 48	\$ (18 )	\$ 4,166

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
June 28, 2014					
Due 2040	\$ 3,094	961	44	(31 )	\$ 4,068
Due 2041	\$ 1,688	486	24	(6 )	\$ 2,192
Due 2042	\$ 1,688	486	27	(1 )	\$ 2,200
Total	\$ 6,470	\$ 1,933	\$ 95	\$ (38 )	\$ 8,460
June 29, 2013					
Due 2040	\$ 3,094	888	44	(163 )	\$ 3,863
Due 2041	\$ 1,688	448	24	(87 )	\$ 2,073
Due 2042	\$ 1,688	451	27	(76 )	\$ 2,090
Total	\$ 6,470	\$ 1,787	\$ 95	\$ (326 )	\$ 8,026

Exchangeable Unsecured Notes, due 2102

Quarterly cash dividends do not result in an adjustment to the put/call rate of the Company's exchangeable unsecured notes due 2102; therefore, the cash dividend payments in the first and second fiscal quarters of 2014 had no effect on the exchangeable notes due 2102.

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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

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, 2014	\$ (129,918 )	\$ 190,998	554	\$61,634
Other comprehensive income (loss) before reclassifications	-	(8,439 )	1,828	\$(6,611 )
Tax effect	-	-	(640 )	\$(640 )
Other comprehensive income (loss) before reclassifications, net of tax	-	(8,439 )	1,188	\$(7,251 )
Amounts reclassified out of AOCI	4,492	-	-	\$4,492
Tax effect	(1,632 )	-	-	\$(1,632 )
Amounts reclassified out of AOCI, net of tax	2,860	-	-	\$2,860
Net other comprehensive income (loss)	\$ 2,860	\$(8,439 )	\$ 1,188	\$(4,391 )
Balance at June 28, 2014	\$ (127,058 )	\$ 182,559	\$ 1,742	\$57,243

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.



## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Note 7 – Pensions and Other Postretirement Benefits

The Company maintains various retirement benefit plans.

The following table shows the components of the net periodic pension cost for the second fiscal quarters of 2014 and 2013 for the Company's defined benefit pension plans:

	Fiscal quarter ended June 28, 2014		Fiscal quarter ended June 29, 2013	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Net service cost	\$-	\$ 831	\$-	\$ 872
Interest cost	3,834	2,195	3,474	2,012
Expected return on plan assets	(4,058)	(532 )	(4,586)	(520 )
Amortization of prior service cost (credit)	(23 )	1	245	(8 )
Amortization of losses	1,810	691	3,507	828
Net periodic benefit cost	\$1,563	\$ 3,186	\$2,640	\$ 3,184

The following table shows the components of the net periodic pension cost for the six fiscal months ended June 28, 2014 and June 29, 2013 for the Company's defined benefit pension plans:

	Six fiscal months ended June 28, 2014		Six fiscal months ended June 29, 2013	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Net service cost	\$-	\$ 1,655	\$-	\$ 1,757
Interest cost	7,668	4,376	6,941	4,054
Expected return on plan assets	(8,116)	(1,057 )	(9,562)	(1,049 )
Amortization of prior service cost (credit)	(46 )	2	489	(17 )
Amortization of losses	3,620	1,378	7,465	1,667
Net periodic benefit cost	\$3,126	\$ 6,354	\$5,333	\$ 6,412

On May 21, 2014, Vishay announced that it will offer a special limited-time voluntary lump sum payment opportunity to certain former employees who are deferred vested participants of the Vishay Retirement Plan, Vishay's U.S. qualified pension plan, and who are not currently receiving periodic payments of their pension benefit. The effects of the offer will depend on the number of participants that elect to receive a lump sum payment.

## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

The following table shows the components of the net periodic benefit cost for the second fiscal quarters of 2014 and 2013 for the Company's other postretirement benefit plans:

	Fiscal quarter ended		Fiscal quarter ended	
	June 28, 2014		June 29, 2013	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	\$29	\$ 79	\$27	\$ 74
Interest cost	88	63	79	63
Amortization of prior service (credit)	(206)	-	(199)	-
Amortization of losses (gains)	(35 )	10	1	-
Net periodic benefit cost	\$(124)	\$ 152	\$(92 )	\$ 137

The following table shows the components of the net periodic pension cost for the six fiscal months ended June 28, 2014 and June 29, 2013 for the Company's other postretirement benefit plans:

	Six fiscal months ended		Six fiscal months ended	
	June 28, 2014		June 29, 2013	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	\$58	\$ 158	\$55	\$ 148
Interest cost	176	126	157	127
Amortization of prior service (credit)	(412)	-	(399)	-
Amortization of losses (gains)	(70 )	20	2	-
Net periodic benefit cost	\$(248)	\$ 304	\$(185)	\$ 275

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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

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	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Stock options	\$-	\$6	\$-	18
Restricted stock units	804	(2,646)	1,614	(1,718)
Phantom stock units	-	-	131	108
Total	\$804	\$(2,640)	\$1,745	(1,592)

The Company recognizes compensation cost for RSUs that are expected to vest and records cumulative adjustments in the period that the expectation changes. Stock-based compensation for the fiscal quarter and six fiscal months ended June 29, 2013, as presented in the table above, includes the material reversal of stock-based compensation expense recognized for the performance-based RSUs scheduled to vest on January 1, 2014 recorded in the second fiscal quarter of 2013. \$1,778 of these reversed costs had been originally reported as a separate line item upon cessation of employment of certain former executives in 2011, and accordingly, this adjustment is also reported as a separate line item in the accompanying consolidated condensed statements of operations. A portion of the stock-based compensation expense related to certain current executives that was reversed in the second fiscal quarter of 2013 was recognized in the fourth fiscal quarter of 2013 due to certain amendments to the performance-based RSUs granted to certain current executives in 2011 approved by the Compensation Committee of the Board of Director's in the fourth fiscal quarter of 2013. Pursuant to their original terms, the performance-based RSUs would vest on January 1, 2014 only if all of the associated performance criteria were met for the three-year period ending December 31, 2013. Pursuant to the amended terms, 75% of the performance-based RSUs of each of the certain current executives vested effective December 5, 2013 in light of the Compensation Committee of the Board of Director's assessment that the performance criteria would be achieved in substantial part by December 31, 2013.

The following table summarizes unrecognized compensation cost and the weighted average remaining amortization periods at June 28, 2014 (amortization periods in years):

Unrecognized Compensation Cost	Weighted Average Remaining
--------------------------------	----------------------------

Amortization  
Periods

Stock options	\$ -	0.0
Restricted stock units	10,766	1.4
Phantom stock units	-	0.0
Total	\$ 10,766	

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NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

2007 Stock Incentive Plan

The Company's 2007 Stock Incentive Program (the "2007 Program") was amended and restated and approved by Vishay's stockholders at Vishay's Annual Meeting of Stockholders on May 20, 2014. The 2007 Program 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.

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, 2013. No additional options may be granted pursuant to these programs.

At December 31, 2013 and June 28, 2014, there were 109,000 options outstanding with a weighted average exercise price of \$15.24. At June 28, 2014, the weighted average remaining contractual life of all outstanding options was 2.73 years.

At June 28, 2014, there were no unvested options outstanding.

The pretax aggregate intrinsic value (the difference between the closing stock price on the last trading day of the second fiscal quarter of 2014 of \$15.22 per share and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 28, 2014 is \$80. This amount changes based on changes in the market value of the Company's common stock. During the six fiscal months ended June 28, 2014, no options were exercised.

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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

## Restricted Stock Units

RSU activity under the 2007 Program as of June 28, 2014 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, 2014	1,059	\$ 13.40
Granted	336	13.48
Vested*	(146 )	15.87
Cancelled or forfeited	(102 )	17.45
Outstanding at June 28, 2014	1,147	\$ 12.75
Expected to vest at June 28, 2014	760	

\* 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 on January 1, 2015 is evaluated based on the full achievement of the defined target performance criteria. The number of performance-based RSUs that are scheduled to vest on January 1, 2016 and January 1, 2017 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, 2015	-	276	276
January 1, 2016	111	111	222
January 1, 2017	192	-	192

## Phantom Stock Plan

The 2007 Program authorizes the grant of phantom stock units to the extent provided for in the Company's employment agreements with such senior 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 June 28, 2014 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, 2014	107	
Granted	10	\$ 13.12
Dividend equivalents issued	1	
Redeemed for common stock	-	
Outstanding at June 28, 2014	118	

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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Note 9 – Segment Information

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.

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, executive compensation charges (credits), material gains and losses on sales of property, 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 following tables set forth business segment information:

	MOSFETs	Diodes	Optoelectronic Components	Resistors & Inductors	Capacitors	Total
<u>Fiscal quarter ended June 28, 2014:</u>						
Product Sales	\$ 123,971	\$ 149,571	\$ 63,258	\$ 192,536	\$ 111,744	\$ 641,080
Royalty Revenues	71	-	-	778	-	\$ 849
Total Revenue	\$ 124,042	\$ 149,571	\$ 63,258	\$ 193,314	\$ 111,744	\$ 641,929
Gross Margin	\$ 18,871	\$ 34,706	\$ 22,788	\$ 61,395	\$ 26,333	\$ 164,093
<u>Fiscal quarter ended June 29, 2013:</u>						
Product Sales	\$ 115,484	\$ 140,623	\$ 58,397	\$ 169,817	\$ 111,749	\$ 596,070
Royalty Revenues	79	-	-	1,516	-	\$ 1,595
Total Revenue	\$ 115,563	\$ 140,623	\$ 58,397	\$ 171,333	\$ 111,749	\$ 597,665
Gross Margin	\$ 16,466	\$ 31,427	\$ 19,151	\$ 54,345	\$ 21,468	\$ 142,857
<u>Six fiscal months ended June 28, 2014:</u>						
Product Sales	\$ 237,084	\$ 286,500	\$ 120,756	\$ 380,525	\$ 217,255	\$ 1,242,120
Royalty Revenues	99	-	-	2,088	-	\$ 2,187
Total Revenue	\$ 237,183	\$ 286,500	\$ 120,756	\$ 382,613	\$ 217,255	\$ 1,244,307
Gross Margin	\$ 31,488	\$ 64,471	\$ 44,025	\$ 121,515	\$ 47,877	\$ 309,376
<u>Six fiscal months ended June 29, 2013:</u>						
Product Sales	\$ 216,330	\$ 265,735	\$ 114,623	\$ 333,745	\$ 217,911	\$ 1,148,344
Royalty Revenues	121	-	-	3,454	-	\$ 3,575
Total Revenue	\$ 216,451	\$ 265,735	\$ 114,623	\$ 337,199	\$ 217,911	\$ 1,151,919



Gross Margin	\$29,366	\$58,688	\$38,925	\$106,946	\$45,666	\$279,591
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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Operating margin reconciliation:				
MOSFETs	\$9,493	\$5,682	\$11,980	\$8,515
Diodes	28,130	25,339	51,188	46,728
Optoelectronic Components	18,945	15,558	36,349	31,767
Resistors & Inductors	51,969	45,540	102,305	89,740
Capacitors	20,122	15,585	35,463	34,041
Restructuring and Severance Costs	(9,014 )	-	(15,418 )	-
Executive Compensation Credit	-	1,778	-	1,778
Unallocated Selling, General, and Administrative Expenses	(61,722)	(57,592)	(121,372)	(115,074)
Consolidated Operating Income	\$57,923	\$51,890	\$100,495	\$97,495

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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Note 10 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share attributable to Vishay stockholders (shares in thousands):

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Numerator:				
Numerator for basic earnings per share:				
Net earnings	\$35,642	\$31,309	\$61,452	\$60,240
Adjustment to the numerator for continuing operations and net earnings:				
Interest savings assuming conversion of dilutive convertible and exchangeable notes, net of tax	15	44	30	91
Numerator for diluted earnings per share:				
Net earnings	\$35,657	\$31,353	\$61,482	\$60,331
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	147,449	143,603	147,444	143,544
Outstanding phantom stock units	118	107	117	107
Adjusted weighted average shares	147,567	143,710	147,561	143,651
Effect of dilutive securities:				
Convertible and exchangeable debt instruments	6,513	7,913	5,647	7,288
Restricted stock units	234	249	222	313
Other	8	8	8	4
Dilutive potential common shares	6,755	8,170	5,877	7,605
Denominator for diluted earnings per share:				
Adjusted weighted average shares	154,322	151,880	153,438	151,256
Basic earnings per share attributable to Vishay stockholders	\$0.24	\$0.22	\$0.42	\$0.42
Diluted earnings per share attributable to Vishay stockholders	\$0.23	\$0.21	\$0.40	\$0.40

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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Diluted earnings per share for the periods presented do not reflect the following weighted average potential common shares that would have an antidilutive effect or have unsatisfied performance conditions (in thousands):

	Fiscal quarters		Six fiscal	
	ended		months ended	
	June	June	June	June
	28,	29,	28,	29,
	2014	2013	2014	2013
Convertible and exchangeable notes:				
Convertible Senior Debentures, due 2040	-	19,809	-	19,809
Convertible Senior Debentures, due 2041	7,924	7,885	7,911	7,885
Weighted average employee stock options	77	77	77	91
Weighted average other	161	302	138	412

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

The Company's convertible debt instruments are only convertible upon the occurrence of certain events. While none of these events has occurred as of June 28, 2014, certain conditions which could trigger conversion have been deemed to be non-substantive, and accordingly, the Company has always assumed the conversion of these instruments in its diluted earnings per share computation during periods in which they are dilutive.

At the direction of its Board of Directors, the Company intends, upon conversion, to repay the principal amounts of the convertible senior debentures, due 2040, due 2041, and due 2042, in cash and settle any additional amounts in shares of Vishay common stock. Accordingly, the debentures are included in the diluted earnings per share computation using the "treasury stock method" (similar to options and warrants) rather than the "if converted method" otherwise required for convertible debt. Under the "treasury stock method," Vishay calculates the number of shares issuable under the terms of the debentures based on the average market price of Vishay common stock during the period, and that number is included in the total diluted shares figure for the period. If the average market price is less than \$13.77, no shares are included in the diluted earnings per share computation for the convertible senior debentures due 2040, if the average market price is less than \$18.87, no shares are included in the diluted earnings per share computation for the convertible senior debentures due 2041, and if the average market price is less than \$11.71, no shares are included in the diluted earnings per share computation for the convertible senior debentures due 2042.

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## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Note 11 – Fair Value Measurements

The fair value measurement accounting guidance establishes a valuation hierarchy of the inputs used to measure fair value. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the Company's own assumptions.

An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. There have been no changes in the classification of any financial instruments within the fair value hierarchy in the periods presented.

The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis:

	Total Fair Value	Level 1	Level 2	Level 3
<u>June 28, 2014:</u>				
<u>Assets:</u>				
Assets held in rabbi trusts	\$38,721	\$25,351	\$13,370	\$-
Available for sale securities	\$7,568	7,568	-	-
	\$46,289	\$32,919	\$13,370	\$-
<u>Liabilities:</u>				
Embedded derivative - convertible debentures due 2040	\$(460 )	\$-	\$-	\$(460 )
Embedded derivative - convertible debentures due 2041	\$(343 )	-	-	(343 )
Embedded derivative - convertible debentures due 2042	\$(196 )	-	-	(196 )
	\$(999 )	\$-	\$-	\$(999 )
<u>December 31, 2013:</u>				
<u>Assets:</u>				
Assets held in rabbi trusts	\$36,992	\$24,064	12,928	\$-
Available for sale securities	\$7,356	7,356	-	-
	\$44,348	\$31,420	\$12,928	\$-
<u>Liabilities:</u>				
Embedded derivative - convertible debentures due 2040	\$(491 )	\$-	\$-	\$(491 )
Embedded derivative - convertible debentures due 2041	\$(349 )	-	-	(349 )
Embedded derivative - convertible debentures due 2042	\$(197 )	-	-	(197 )
	\$(1,037 )	\$-	\$-	\$(1,037 )

The Company maintains non-qualified trusts, referred to as "rabbi" trusts, to fund payments under deferred compensation and non-qualified pension plans. Rabbi trust assets consist primarily of marketable securities, classified as available-for-sale and company-owned life insurance assets. The marketable securities held in the rabbi trusts are

valued using quoted market prices on the last business day of the period. The company-owned life insurance assets are valued in consultation with the Company's insurance brokers using the value of underlying assets of the insurance contracts. The fair value measurement of the marketable securities held in the rabbi trust is considered a Level 1 measurement and the measurement of the company-owned life insurance assets is considered a Level 2 measurement within the fair value hierarchy.

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NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

The Company holds available for sale investments in debt securities that are intended to fund a portion of its pension and other postretirement benefit obligations outside of the United States. The investments are valued based on quoted market prices on the last business day of the year. The fair value measurement of the investments is considered a Level 1 measurement within the fair value hierarchy.

The convertible senior debentures, due 2040, due 2041, and due 2042, issued by the Company on November 9, 2010, May 13, 2011, and May 31, 2012, respectively, contain embedded derivative features that GAAP requires to be bifurcated and remeasured each reporting period. Each quarter, the change in the fair value of the embedded derivative features, if any, is recorded in the consolidated condensed statements of operations. The Company uses a derivative valuation model to derive the value of the embedded derivative features. Key inputs into this valuation model are the Company's current stock price, risk-free interest rates, the stock dividend yield, the stock volatility, and the debentures' credit spread over LIBOR. The first three aforementioned inputs are based on observable market data and are considered Level 2 inputs while the last two aforementioned inputs are unobservable and thus require management's judgment and are considered Level 3 inputs. The fair value measurement is considered a Level 3 measurement within the fair value hierarchy.

The fair value of the long-term debt, excluding the derivative liabilities, at June 28, 2014 and December 31, 2013 is approximately \$846,900 and \$750,700, respectively, compared to its carrying value, excluding the derivative liabilities, of \$385,807, and \$363,874, respectively. The Company estimates the fair value of its long-term debt using a combination of quoted market prices for similar financing arrangements and expected future payments discounted at risk-adjusted rates, which are considered Level 2 inputs.

At June 28, 2014 and December 31, 2013, the Company's short-term investments were comprised of time deposits with financial institutions that have maturities that exceed 90 days from the date of acquisition; however they all mature within one year from the respective balance sheet dates. The short-term investments are accounted for as held-to-maturity debt instruments, at amortized cost, which approximates their fair value. The investments are funded with excess cash not expected to be needed for operations prior to maturity; therefore, the Company believes it has the intent and ability to hold the short-term investments until maturity. At each reporting date, the Company performs an evaluation to determine if any unrealized losses are other-than-temporary. No other-than-temporary impairments have been recognized on these securities, and there are no unrecognized holding gains or losses for these securities during the periods presented. There have been no transfers to or from the held-to-maturity classification. All decreases in the account balance are due to returns of principal at the securities' maturity dates. Interest on the securities is recognized as interest income when earned.

At June 28, 2014 and December 31, 2013, the Company's cash and cash equivalents were comprised of demand deposits, time deposits with maturities of three months or less when purchased, and money market funds. The Company estimates the fair value of its cash, cash equivalents, and short-term investments using level 2 inputs. Based on the current interest rates for similar investments with comparable credit risk and time to maturity, the fair value of the Company's cash, cash equivalents, and short-term investments approximate the carrying amounts reported in the consolidated condensed balance sheets.

The Company's financial instruments also include accounts receivable, short-term notes payable, and accounts payable. The carrying amounts for these financial instruments reported in the consolidated condensed balance sheets approximate their fair values.

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

Overview

Vishay Intertechnology, Inc. ("Vishay," "we," "us," or "our") is a global manufacturer and supplier of discrete semiconductors and passive components, including power MOSFETs, power integrated circuits, transistors, diodes, optoelectronic components, resistors, capacitors, and inductors. Discrete semiconductors and passive components manufactured by Vishay are used in virtually all types of electronic products, including those in the industrial, computing, automotive, consumer electronic products, telecommunications, power supplies, military/aerospace, and medical industries.

We operate in five product segments: MOSFETs; Diodes; Optoelectronic Components; Resistors & Inductors; and Capacitors.

Since 1985, we have pursued a business strategy of growth through focused research and development and acquisitions. Through this strategy, we have grown to become one of the world's largest manufacturers of discrete semiconductors and passive components. We expect to continue our strategy of acquisitions while also maintaining a prudent capital structure.

We are focused on enhancing stockholder value and improving earnings per share. In addition to our growth plan, we also have opportunistically repurchased our stock. We have repurchased 44.3 million shares of our common stock since the fourth fiscal quarter of 2010, representing 24% of our shares outstanding before we began this initiative. The exchange of \$56.4 million principal amount of our exchangeable unsecured notes by a holder of the notes in the third fiscal quarter of 2013 increased the number of our common shares outstanding by 3.7 million, but did not affect the number of weighted average shares outstanding used for computing diluted earnings per share because our earnings per share computation assumes that the exchangeable unsecured notes would be converted. On February 3, 2014, our Board of Directors instituted a quarterly dividend payment program and declared the first cash dividend in the history of Vishay. The permitted capacity to repurchase shares of stock or pay dividends under our credit facility increases each quarter by an amount equal to 20% of net income. At June 28, 2014, our total permitted capacity to repurchase shares of stock or pay dividends under our credit facility is \$199.2 million. Although we have no current plans, we will continue to evaluate attractive stock repurchase opportunities.

Our business and operating results have been and will continue to be impacted by worldwide economic conditions. Our revenues are dependent on end markets that are impacted by consumer and industrial demand, and our operating results can be adversely affected by reduced demand in those global markets. For several years, we implemented aggressive cost reduction programs. We continue to monitor the current economic environment and its potential effects on our customers and the end markets that we serve. Additionally, we continue to closely monitor our costs, inventory, and capital resources to respond to changing conditions and to ensure we have the management, business processes, and resources to meet our future needs. In response to the current economic environment, we began implementing a targeted cost reduction program in the fourth fiscal quarter of 2013 to support our profitability without jeopardizing our growth plan. See additional information regarding our competitive strengths and key challenges as disclosed in Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission (the "SEC") on February 19, 2014.

On July 11, 2014, we entered into an agreement to acquire Capella Microsystems (Taiwan) Inc. for approximately NT\$6,051 million or \$205 million. Capella is a fabless IC design company specializing in optoelectronic sensors. We intend to acquire Capella first through a tender offer of up to 100 percent of Capella's outstanding shares at a price of NT\$139 per share. The tender offer is conditioned upon at least a majority of the outstanding shares being tendered. The period to tender outstanding shares ends on September 1, 2014, but could be extended pursuant to local regulations. If a majority of the outstanding shares are tendered, the tender offer is expected to close in September



2014 followed by our acquisition of 100 percent of Capella in a merger by the end of January 2015. If completed, the acquisition is expected to strengthen our position in optoelectronic sensors, a promising growth market. (See further discussion in "Acquisition Activity.")

We utilize several financial metrics, including net revenues, gross profit margin, segment operating income, end-of-period backlog, book-to-bill ratio, inventory turnover, change in average selling prices, net cash and short-term investments (debt), and free cash generation to evaluate the performance and assess the future direction of our business. (See further discussion in "Financial Metrics" and "Financial Condition, Liquidity, and Capital Resources.") Revenues increased in the second fiscal quarter of 2014 and were higher than the previous quarter and the range experienced in 2013. Operating results have been close to our expectations at this relatively low revenue level. An increase in orders in the first six fiscal months of 2014 resulted in an increase in key financial metrics compared to the second half of 2013.

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Net revenues for the fiscal quarter ended June 28, 2014 were \$641.9 million, compared to \$597.7 million for the fiscal quarter ended June 29, 2013. The net earnings attributable to Vishay stockholders for the fiscal quarter ended June 28, 2014 were \$35.6 million, or \$0.23 per diluted share, compared to \$31.3 million, or \$0.21 per diluted share for the fiscal quarter ended June 29, 2013.

Net revenues for the six fiscal months ended June 28, 2014 were \$1,244.3 million, compared to \$1,151.9 million for the six fiscal months ended June 29, 2013. The net earnings attributable to Vishay stockholders for the six fiscal months ended June 28, 2014 were \$61.5 million, or \$0.40 per diluted share, compared to \$60.2 million, or \$0.40 per diluted share for the six fiscal months ended June 29, 2013.

Net earnings attributable to Vishay stockholders for the fiscal quarters and six fiscal months ended June 28, 2014 and June 29, 2013 include items affecting comparability. The reconciliation below includes certain financial measures which are not recognized in accordance with GAAP, including adjusted net earnings and adjusted net earnings per share. These non-GAAP measures should not be viewed as an alternative to GAAP measures of performance. Non-GAAP measures such as adjusted net earnings and adjusted net earnings per share do not have uniform definitions. These measures, as calculated by Vishay, may not be comparable to similarly titled measures used by other companies. Management believes that these measures are meaningful because they provide insight with respect to our intrinsic operating results. Reconciling items to arrive at adjusted net earnings represent significant charges or credits that are important to understanding our intrinsic operations.

The items affecting comparability are (in thousands, except per share amounts):

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
GAAP net earnings attributable to Vishay stockholders	\$35,642	\$31,309	\$61,452	\$60,240
<u>Reconciling items affecting operating margin:</u>				
Restructuring and severance costs	\$9,014	\$-	\$15,418	\$-
Executive compensation credit	-	(1,778 )	-	(1,778 )
<u>Reconciling items affecting tax expense:</u>				
Tax effects of items above and other one-time tax expense (benefit)	\$(2,747 )	\$633	\$(4,844 )	\$(697 )
Adjusted net earnings	\$41,909	\$30,164	\$72,026	\$57,765
Adjusted weighted average diluted shares outstanding	154,322	151,880	153,438	151,256
Adjusted earnings per diluted share *	\$0.27	\$0.20	\$0.47	\$0.38

\* Includes add-back of interest on exchangeable notes in periods where the notes are dilutive.

Our results for the fiscal quarter and six fiscal months ended June 28, 2014 represent the effects of an improved business environment in nearly all of our customer end markets and increased order activity versus the prior fiscal quarter and prior year periods, as well as the effects of our cost reduction programs and our organic growth initiatives. Our results for the fiscal quarter and six fiscal months ended June 29, 2013 represent the effects of better economic conditions following a period of business environment deterioration in the last six fiscal months of 2012 as well as

temporary fixed cost savings measures. These effects were partially offset by temporary issues in the second fiscal quarter of 2013 that included start-up inefficiencies at a major foundry, inventory valuation effects, increased palladium prices, unfavorable changes in other metals prices, and unfavorable product mix shifts.

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## Financial Metrics

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

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

Operating margin is computed as gross profit less operating expenses as a percentage of net revenues. We evaluate business segment performance on segment operating margin. Only dedicated, direct selling, general, and administrative expenses of the segments are included in the calculation of segment operating income. Segment operating margin is computed as operating income less items such as restructuring and severance costs, asset write-downs, goodwill and indefinite-lived intangible asset impairments, inventory write-downs, gains or losses on purchase commitments, global operations, sales and marketing, information systems, finance and administrative groups, and other items, expressed as a percentage of net revenues. We believe that evaluating segment performance excluding such items is meaningful because it provides insight with respect to intrinsic operating results of the segment. Operating margin is clearly a function of net revenues, but also reflects our cost management programs and our ability to contain fixed costs.

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

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

We focus on our inventory turnover as a measure of how well we are managing our inventory. We define inventory turnover for a financial reporting period as our costs of products sold for the four fiscal quarters ending on the last day of the reporting period divided by our average inventory (computed using each fiscal quarter-end balance) for this same period. A higher level of inventory turnover reflects more efficient use of our capital.

Pricing in our industry can be volatile. We analyze trends and changes in average selling prices to evaluate likely future pricing. The erosion of average selling prices of established products is typical for semiconductor products. We attempt to offset this deterioration with ongoing cost reduction activities and new product introductions. Our specialty passive components are more resistant to average selling price erosion.

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The quarter-to-quarter trends in these financial metrics can also be an important indicator of the likely direction of our business. The following table shows net revenues, gross profit margin, operating margin, end-of-period backlog, book-to-bill ratio, inventory turnover, and changes in ASP for our business as a whole during the five fiscal quarters beginning with the second fiscal quarter of 2013 through the second fiscal quarter of 2014 (dollars in thousands):

	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013	1st Quarter 2014	2nd Quarter 2014
Net revenues	\$597,665	\$602,890	\$616,170	\$602,378	\$641,929
Gross profit margin	23.9 %	23.8 %	23.4 %	24.1 %	25.6 %
Operating margin <sup>(1)</sup>	8.7 %	8.8 %	7.6 %	7.1 %	9.0 %
End-of-period backlog <sup>(2)</sup>	\$646,700	\$613,800	\$611,400	\$664,200	\$663,800
Book-to-bill ratio	1.08	0.93	0.99	1.09	1.00
Inventory turnover	4.21	4.08	4.23	4.12	4.19
Change in ASP vs. prior quarter	-1.1 %	-0.6 %	-0.7 %	-1.0 %	-0.6 %

(1) Operating margin for the second fiscal quarter of 2013 includes a \$1.8 million stock compensation credit related to performance-based stock compensation for certain former executives, following a determination that achievement of the three-year performance targets was no longer probable (see Note 8 to our consolidated condensed financial statements). Operating margin for the fourth fiscal quarter of 2013 and the first and second fiscal quarters of 2014 includes \$2.8 million, \$6.4 million, and \$9.0 million, respectively, of restructuring and severance expenses (see Note 3 to our consolidated condensed financial statements).

(2) End of period backlog for the second fiscal quarter of 2014 reflects a total of \$1.3 million related to the backlog of Holy Stone Polytech Co., Ltd. as of the date of acquisition.

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

Revenues increased sequentially versus the first fiscal quarter of 2014, as expected. The order level remains at a higher level than experienced in the latter half of 2013, but decreased slightly versus the first fiscal quarter of 2014. Average selling prices continue to decline primarily due to our commodity semiconductor products and the effects of growing our Resistors & Inductors business in Asia.

Gross margins increased due to higher volumes, but were negatively impacted by additional depreciation associated with our cost reduction programs beginning with the fourth fiscal quarter of 2013 and will continue to be negatively impacted until the complete implementation of our cost reduction programs.

The book-to-bill ratio in the second fiscal quarter of 2014 decreased to 1.00 from 1.09 in the first fiscal quarter of 2014. The book-to-bill ratios for distributors and original equipment manufacturers ("OEM") were 1.03 and 0.97, respectively, versus ratios of 1.10 and 1.08, respectively, during the first fiscal quarter of 2014.

For the third fiscal quarter of 2014, we anticipate revenues between \$630 million and \$670 million (excluding any revenues of Capella if the tender offer closes before the end of the third fiscal quarter) at gross margins in line with this volume.



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Financial Metrics by Segment

The following table shows net revenues, book-to-bill ratio, gross profit margin, and segment operating margin broken out by segment for the five fiscal quarters beginning with the second fiscal quarter of 2013 through the second fiscal quarter of 2014 (dollars in thousands):

	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013	1st Quarter 2014	2nd Quarter 2014				
<b>MOSFETs</b>									
Net revenues	\$115,563	\$115,168	\$117,858	\$113,141	\$124,042				
Book-to-bill ratio	1.11	0.94	0.96	1.13	1.05				
Gross profit margin	14.2	% 13.7	% 12.1	% 11.2	% 15.2	%			
Segment operating margin	4.9	% 4.6	% 4.5	% 2.2	% 7.7	%			
<b>Diodes</b>									
Net revenues	\$140,623	\$140,790	\$140,739	\$136,929	\$149,571				
Book-to-bill ratio	1.17	0.88	0.98	1.09	1.07				
Gross profit margin	22.3	% 23.0	% 21.4	% 21.7	% 23.2	%			
Segment operating margin	18.0	% 18.6	% 16.8	% 16.8	% 18.8	%			
<b>Optoelectronic Components</b>									
Net revenues	\$58,397	\$56,847	\$56,775	\$57,498	\$63,258				
Book-to-bill ratio	1.00	0.87	1.05	1.16	1.04				
Gross profit margin	32.8	% 35.5	% 31.1	% 36.9	% 36.0	%			
Segment operating margin	26.6	% 29.0	% 24.7	% 30.3	% 29.9	%			
<b>Resistors &amp; Inductors</b>									
Net revenues	\$171,333	\$178,175	\$190,874	\$189,299	\$193,314				
Book-to-bill ratio	1.04	1.04	0.95	1.04	0.98				
Gross profit margin	31.7	% 30.4	% 31.9	% 31.8	% 31.8	%			
Segment operating margin	26.6	% 25.3	% 27.1	% 26.6	% 26.9	%			
<b>Capacitors</b>									
Net revenues	\$111,749	\$111,910	\$109,924	\$105,511	\$111,744				
Book-to-bill ratio	1.05	0.84	1.07	1.09	0.88				
Gross profit margin	19.2	% 18.6	% 19.6	% 20.4	% 23.6	%			

Segment operating margin 13.9 % 13.3 % 14.2 % 14.5 % 18.0 %

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## Acquisition Activity

As part of our growth strategy, we seek 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 we have substantial marketing and technical expertise. This includes exploring opportunities to acquire targets to gain market share, penetrate different geographic markets, enhance new product development, round out our existing product lines, or grow our high margin niche market businesses. Acquisitions of passive components businesses would likely be made to strengthen and broaden our position as a specialty product supplier; acquisitions of discrete semiconductor businesses would be made to increase market share and to generate synergies. To limit our financial exposure, we have implemented a policy not to pursue acquisitions if our post-acquisition debt would exceed 2.5x our pro forma earnings before interest, taxes, depreciation, and amortization ("EBITDA"). For these purposes, we calculate pro forma EBITDA as the adjusted EBITDA of Vishay and the target for Vishay's four preceding fiscal quarters, with a pro forma adjustment for savings which management estimates would have been achieved had the target been acquired by Vishay at the beginning of the four fiscal quarter period.

Our growth plan targets adding, through acquisitions, an average of approximately \$100 million of revenues per year. Depending on the opportunities available, we might make several smaller acquisitions or a few larger acquisitions. We intend to make such acquisitions using mainly cash, rather than debt or equity, although we do have capacity on our revolving credit facility if necessary. We are not currently targeting acquisitions with a purchase price larger than \$500 million.

On June 11, 2014, we acquired Holy Stone Polytech Co., Ltd. ("Holy Stone Polytech"), a Japanese manufacturer of tantalum capacitors and formerly a subsidiary of Holy Stone Enterprise Co. Ltd., for \$20.8 million, net of cash acquired. The acquisition is expected to strengthen our position in tantalum capacitors, especially in Asia. For financial reporting purposes, the results and operations of Holy Stone Polytech have been included in the Capacitors segment since June 11, 2014.

On July 11, 2014, we entered into an agreement to acquire Capella for approximately NT\$6,051 million or \$205 million. Capella is a fabless IC design company specializing in optoelectronic sensors that is publicly traded in Taiwan. If completed, the acquisition is expected to strengthen our position in optoelectronic sensors, a promising growth market.

The acquisition is expected to require two steps. We have initiated a tender offer to acquire up to 100 percent of Capella's outstanding shares at a price of NT\$139 per share. The tender offer is conditioned upon at least a majority of the outstanding shares being tendered. The period to tender outstanding shares ends on September 1, 2014, but could be extended pursuant to local regulations. If a majority of the outstanding shares are tendered, the tender offer is expected to close in September 2014 followed by our acquisition of 100 percent of Capella in a merger by the end of January 2015. Upon the successful close of the tender offer, we will control Capella and will begin consolidating it in our financial statements. The interest of the shares not tendered will be presented as non-controlling interest in our financial statements. Due to the expected timing of the close of the tender offer, we do not anticipate that Capella's results will be material to our third fiscal quarter earnings per share.

The majority of the purchase price will be funded with cash on-hand, but we anticipate borrowing between \$50 million and \$60 million on our revolving credit facility to achieve optimal future flexibility of the legal entity structure. Due to the nature of Capella's business, we expect that a significant portion of the purchase price will be allocated to definite-lived intangible assets and that yearly amortization expense of the intangible assets will be in excess of \$10 million.

There is no assurance that we will be able to identify and acquire additional suitable acquisition candidates at price levels and on terms and conditions we consider acceptable.



## Cost Management

We place a strong emphasis on controlling our costs.

The erosion of average selling prices of our established products, particularly our semiconductor products, that is typical of our industry and inflation drive us to continually seek ways to reduce our variable costs. Our variable cost reduction efforts include expending capital to increase automation and maximize the efficiency in our production facilities, consolidating materials purchasing across regions and divisions to achieve economies of scale, materials substitution, maintaining an appropriate mix of in-house production and subcontractor production, increasing wafer size and shrinking dies to maximize efficiency in our semiconductor production processes, and other yield improvement activities.

Our cost management strategy also includes a focus on controlling fixed costs. We seek to maintain selling, general, and administrative expenses at current quarterly levels, excluding foreign currency exchange effects and substantially independent of sales volume changes. Our fixed cost control efforts include automating administrative processes through the expansion of IT systems, gradually migrating to common IT systems across our organization, streamlining our legal entity structure, and reducing our external resource needs by utilizing more cost-effective in-house personnel, while utilizing external resources when day-to-day expertise is not required in-house.

Historically, our primary cost reduction technique was through the transfer of production to the extent possible from high-labor-cost countries, such as the United States and Western Europe, to lower-labor-cost countries, such as the Czech Republic, Hungary, Israel, India, Malaysia, Mexico, the People's Republic of China, and the Philippines. Between 2001 and 2009, we recorded, in the consolidated condensed statements of operations, restructuring and severance costs totaling \$320 million and related asset write-downs totaling \$89 million in order to reduce our cost structure going forward. We also incurred significant costs to restructure and integrate acquired businesses, which was included in the cost of the acquisitions under then-applicable GAAP.

We did not initiate any new restructuring projects in 2010, 2011, or 2012 and thus did not record any restructuring and severance expenses during such periods. Occasionally, our ongoing cost containment activities are not adequate and we must take actions to maintain our cost competitiveness. On October 28, 2013, we announced various cost reduction programs as part of our continuous efforts to improve efficiency and operating performance. We recorded \$9.0 million of restructuring and severance expenses in the second fiscal quarter of 2014 for expenses that were recognizable under GAAP during the period and \$18.2 million of restructuring and severance expenses since the cost reduction programs were implemented. The remaining expenses associated with the programs will be recorded as they become recognizable under GAAP.

The programs primarily focus on a plan to enhance the competitiveness of our MOSFETs segment and a voluntary separation / early retirement offer to certain employees Company-wide. We also plan to implement two other smaller cost reduction programs concerning the manufacturing of products within our Diodes segment. The programs in total are expected to lower costs by approximately \$36 million per year when fully implemented at expected cash costs of approximately \$32 million.

The project for the MOSFETs segment will extend over a period of approximately two years. The manufacture of wafers for a substantial share of products will be transferred into a more cost-efficient fab. As a consequence, certain other wafer manufacturing currently occurring in-house will be transferred to third-party foundries.

The total cash costs associated with the MOSFETs initiatives, principally severance, are expected to be approximately \$16 million. Once fully implemented, we anticipate that the MOSFETs programs will result in an annual reduction in variable and fixed manufacturing costs of approximately \$23 million at current volumes.

The voluntary separation / early retirement offer was made to employees worldwide who were eligible because they met job classification, age, and/or years-of-service criteria as of October 31, 2013. The program benefits vary by country and job classification, but generally offer a cash loyalty bonus. All eligible employees have been identified. The voluntary separation / early retirement program will not impact manufacturing operations or our growth plan. Our named executive officers (as defined in our proxy statement) and certain other key employees, generally research, development, and engineering personnel, were not eligible for the voluntary separation / early retirement program. The effective separation / retirement date for most eligible employees who accepted the offer was June 30, 2014 or earlier, with a few exceptions to allow for a transition period.

The total costs associated with the voluntary separation / early retirement program are approximately \$12.7 million. Of this amount, \$7.5 million was recorded in the second fiscal quarter of 2014. Once fully implemented, the Company anticipates that the program will result in an annual reduction in fixed costs of approximately \$10 million, split approximately 35 percent in manufacturing and 65 percent in selling, general, and administrative expenses.

Two other smaller cost reduction programs relate to the transfer of production of certain products within our Diodes segment, which will be implemented in the course of 2014. Both programs are connected to production moves, in order to take advantage of lower labor costs in one program and from the consolidation of manufacturing locations in the other. The total cash costs associated with these production transfers are expected to be approximately \$3 million, and will result in annual cost savings of approximately \$3 million when fully implemented.

We believe that our manufacturing footprint is suitable to serve our customers and end markets, while maintaining lower manufacturing costs. Except for the distinct and targeted programs noted above, we do not anticipate any other material restructuring activities during the remainder of 2014. As we have demonstrated the past two years, we believe that we can substantially maintain our trained workforce, even at lower manufacturing activity levels, by reducing hours and limiting the use of subcontractors and foundries. However, a continued sluggish business environment for the electronics industry or the recurrence of a significant economic downturn may require us to implement additional restructuring initiatives.

Our long-term strategy includes growth through the integration of acquired businesses, and GAAP requires plant closure and employee termination costs that we incur in connection with our acquisition activities to be recorded as expenses in our consolidated statement of operations, as such expenses are incurred. We have not incurred any material plant closure or employee termination costs related to our acquisitions of Huntington Electric, HiRel Systems, LLC, MCB Industrie, or Holy Stone Polytech, but we expect to have some level of future restructuring expenses due to acquisitions.

Even as we seek to manage our costs, we continue to pursue our growth plans through investing in capacities for strategic product lines, and through increasing our resources for R&D, technical marketing, and field application engineering; supplemented by opportunistic acquisitions of specialty businesses.

## Foreign Currency Translation

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

GAAP requires that we identify the "functional currency" of each of our subsidiaries and measure all elements of the financial statements in that functional currency. A subsidiary's functional currency is the currency of the primary economic environment in which it operates. In cases where a subsidiary is relatively self-contained within a particular country, the local currency is generally deemed to be the functional currency. However, a foreign subsidiary that is a direct and integral component or extension of the parent company's operations generally would have the parent company's currency as its functional currency. We have both situations among our subsidiaries.

### Foreign Subsidiaries which use the Local Currency as the Functional Currency

We finance our operations in Europe and certain locations in Asia in local currencies, and accordingly, these subsidiaries utilize the local currency as their functional currency. For those subsidiaries where the local currency is the functional currency, assets and liabilities in the consolidated condensed balance sheets have been translated at the rate of exchange as of the balance sheet date. Translation adjustments do not impact the results of operations and are reported as a separate component of stockholders' equity.

For those subsidiaries where the local currency is the functional currency, revenues and expenses incurred in the local currency are translated at the average exchange rate for the year. While the translation of revenues and expenses incurred in the local currency into U.S. dollars does not directly impact the statements of operations, the translation effectively increases or decreases the U.S. dollar equivalent of revenues generated and expenses incurred in those foreign currencies. The dollar generally was weaker during the second fiscal quarter and first six fiscal months of 2014 compared to the prior year periods, with the translation of foreign currency revenues and expenses into U.S. dollars generally increasing reported revenues and expenses versus the prior year periods.

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

Our operations in Israel and most significant locations in Asia are largely financed in U.S. dollars, and accordingly, these subsidiaries utilize the U.S. dollar as their functional currency. For those foreign subsidiaries where the U.S. dollar is the functional currency, all foreign currency financial statement amounts are remeasured into U.S. dollars. Exchange gains and losses arising from remeasurement of foreign currency-denominated monetary assets and liabilities are included in the results of operations. While these subsidiaries transact most business in U.S. dollars, they may have significant costs, particularly payroll-related, which are incurred in the local currency. The cost of products sold and selling, general, and administrative expense for the second fiscal quarter and first six fiscal months of 2014 have been slightly unfavorably impacted (compared to the prior year periods) by local currency transactions of subsidiaries which use the U.S. dollar as their functional currency.

## Results of Operations

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

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Cost of products sold	74.4%	76.1%	75.1%	75.7%
Gross profit	25.6%	23.9%	24.9%	24.3%
Selling, general & administrative expenses	15.1%	15.5%	15.5%	16.0%
Operating income	9.0%	8.7%	8.1%	8.5%
Income before taxes and noncontrolling interest	8.1%	7.8%	7.3%	7.6%
Net earnings attributable to Vishay stockholders	5.6%	5.2%	4.9%	5.2%
<u>Effective tax rate</u>	31.5%	32.8%	31.5%	30.4%

## Net Revenues

Net revenues were as follows (dollars in thousands):

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net revenues	\$641,929	\$597,665	\$1,244,307	\$1,151,919
Change versus comparable prior year period	\$44,264		\$92,388	
Percentage change versus comparable prior year period	7.4	%	8.0	%

Changes in net revenues were attributable to the following:

	vs. Prior Year Quarter		vs. Prior Year-to-Date	
Change attributable to:				
Increase in volume	7.1	%	8.2	%
Decrease in average selling prices	-2.1	%	-2.4	%
Foreign currency effects	1.6	%	1.3	%
Acquisitions	1.1	%	1.3	%
Other	-0.3	%	-0.4	%
Net change	7.4	%	8.0	%

Our revenue results for the fiscal quarter and six fiscal months ended ended June 28, 2014 were positively affected by increased demand for our products and overall higher demand compared to the prior year periods.

We deduct, from the sales that we record to distributors, allowances for future credits that we expect to provide for returns, scrapped product, and price adjustments under various programs made available to the distributors. We make deductions corresponding to particular sales in the period in which the sales are made, although the corresponding credits may not be issued until future periods. We estimate the deductions based on sales levels to distributors, inventory levels at the distributors, current and projected market trends and conditions, recent and historical activity under the relevant programs, changes in program policies, and open requests for credits. We recorded deductions from gross revenues under our distributor incentive programs of \$43.7 million and \$40.2 million for the six fiscal months ended June 28, 2014 and June 29, 2013, respectively, or 3.4% and 3.4% of gross revenues, respectively. Actual credits issued under the programs during the six fiscal months ended June 28, 2014 and June 29, 2013 were \$41.9 million and \$40.8 million, respectively. Increases and decreases in these incentives are largely attributable to the then-current business climate.

Royalty revenues, included in net revenues on the consolidated condensed statements of operations, were approximately \$2.2 million and \$3.6 million for the six fiscal months ended June 28, 2014 and June 29, 2013, respectively.

#### Gross Profit and Margins

Gross profit margins for the fiscal quarter and six fiscal months ended June 28, 2014 were 25.6% and 24.9%, respectively, versus 23.9% and 24.3%, respectively, for the comparable prior year periods. The increase in gross profit margins for the fiscal quarter and six fiscal months ended June 28, 2014 versus the prior year periods is primarily due to the increase in sales volume. Gross profit margins for the fiscal quarter and six fiscal months ended June 28, 2014 were negatively impacted by additional depreciation associated with our cost reductions programs.

## Segments

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

MOSFETs

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

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net revenues	\$124,042	\$115,563	\$237,183	\$216,451
Change versus comparable prior year period	\$8,479		\$20,732	
Percentage change versus comparable prior year period	7.3	%	9.6	%

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

	vs. Prior Year Quarter		vs. Prior Year-to-Date	
Change attributable to:				
Increase in volume	13.6	%	16.5	%
Decrease in average selling prices	-5.4	%	-5.6	%
Foreign currency effects	0.6	%	0.5	%
Other	-1.5	%	-1.8	%
Net change	7.3	%	9.6	%

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

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Gross profit margin	15.2%	14.2%	13.3%	13.6%

In the first six fiscal months of 2014, the MOSFETs segment continued to regain volume that was lost in 2012. The rate of increase in the second fiscal quarter of 2014 was lower than the increase experienced in the first fiscal quarter of 2014. The increase in volume was primarily due to increased demand from distributors in Asia and general increases in Europe.

Gross profit margin remains below expectations. The gross profit margin for the second fiscal quarter of 2014 improved slightly as the increase in volume and lower materials prices were able to offset the decrease in average selling prices, general cost inflation, and the negative effect of additional depreciation associated with our cost reduction program. The gross profit margin for the six fiscal months ended June 28, 2014 decreased slightly versus the prior year period as the increase in volume and lower materials prices were fully offset by the decrease in average selling prices, general cost inflation, and the negative effect of additional depreciation associated with our cost reduction program.



Typical pricing pressure for our established MOSFETs products continues. We have experienced significant declines in average selling prices versus the prior year periods. The decline is partially due to lower materials prices.

On October 28, 2013, we announced a cost reduction program to enhance the competitiveness of our MOSFETs segment. The program is long-term in nature and will not provide significant improvement until the program is close to full implementation. See "Cost Management" above.

We continue to be optimistic about the long-term prospects of the MOSFETs segment and continue to make capital and R&D investments in this business.

Diodes

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

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net revenues	\$149,571	\$140,623	\$286,500	\$265,735
Change versus comparable prior year period	\$8,948		\$20,765	
Percentage change versus comparable prior year period	6.4	%	7.8	%

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

Change attributable to:	vs. Prior Year Quarter		vs. Prior Year-to-Date	
Increase in volume	7.9	%	10.0	%
Decrease in average selling prices	-2.3	%	-2.6	%
Foreign currency effects	1.1	%	0.9	%
Other	-0.3	%	-0.5	%
Net change	6.4	%	7.8	%

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

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Gross profit margin	23.2%	22.3%	22.5%	22.1%

The Diodes segment was positively affected by the increased demand from distributors in Asia in the first six fiscal months of 2014 and positive business development in Europe in the second fiscal quarter of 2014. The gross profit margin increased slightly versus the prior year periods as the increase in sales volume, the effects of our cost reduction programs, and lower material prices were able to offset the decreased average selling prices and effects of general cost inflation.

Typical pricing pressure for our established Diodes products continues. We have experienced a slight price decline versus the prior year periods and prior fiscal quarter.

The cost reduction programs announced on October 28, 2013 include two smaller projects to improve the results of the Diodes segment. These projects demonstrate our ongoing effort to improve the results of this segment. See "Cost Management" above.

Optoelectronic Components

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

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net revenues	\$63,258	\$58,397	\$120,756	\$114,623
Change versus comparable prior year period	\$4,861		\$6,133	
Percentage change versus comparable prior year period	8.3	%	5.4	%

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

Change attributable to:	vs. Prior Year Quarter		vs. Prior Year-to-Date	
Increase in volume	6.8	%	5.4	%
Decrease in average selling prices	-0.5	%	-1.6	%
Foreign currency effects	2.1	%	1.7	%
Other	-0.1	%	-0.1	%
Net change	8.3	%	5.4	%

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

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Gross profit margin	36.0%	32.8%	36.5%	34.0%

The Optoelectronic Components segment achieved significant growth in the first six fiscal months of 2014, particularly in the second fiscal quarter due to growth in distributor sales, particularly in Asia. Distributor sales to the Americas increased in the first fiscal quarter of 2014, but declined in the second fiscal quarter of 2014. The increase in gross profit margin versus the prior year periods is due to increases in volume, lower materials prices, and positive exchange rate effects, partially offset by slightly lower average selling prices and cost inflation.

Typical pricing pressure for our established Optoelectronic Components products continues. We have experienced slight declines in average selling prices versus the prior year periods and the prior fiscal quarter.

On July 11, 2014, we entered into an agreement to acquire Capella. Capella is a fabless IC design company specializing in optoelectronic products. The acquisition will take place in steps and is expected to be completed by the end of January 2015. If completed, the acquisition is expected to strengthen our position in optoelectronic sensors, a promising growth market.

Resistors & Inductors

Net revenues of the Resistors & Inductors segment were as follows (dollars in thousands):

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net revenues	\$193,314	\$171,333	\$382,613	\$337,199
Change versus comparable prior year period	\$21,981		\$45,414	
Percentage change versus comparable prior year period	12.8 %		13.5 %	

Changes in Resistors & Inductors segment net revenues were attributable to the following:

	vs. Prior Year Quarter		vs. Prior Year-to-Date	
Change attributable to:				
Increase in volume	9.7 %		9.8 %	
Decrease in average selling prices	-2.5 %		-2.2 %	
Foreign currency effects	2.3 %		1.8 %	
Acquisition	3.4 %		4.3 %	
Other	-0.1 %		-0.2 %	
Net change	12.8 %		13.5 %	

Gross profit as a percentage of net revenues for the Resistors & Inductors segment was as follows:

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Gross profit margin	31.8%	31.7 %	31.8%	31.7 %

The Resistors & Inductors segment continues to produce strong results. Net revenues for the fiscal quarter and six fiscal months ended June 28, 2014 have increased by double digits over the prior year periods. Every region and end market, particularly the automotive and industrial end markets and European region, have contributed to the growth. The successful acquisition of MCB Industrie in the second fiscal quarter of 2013 supports continued revenue growth, particularly in the industrial end market. The segment gross profit margin remained high and increased slightly from the prior year periods due to operational cost savings greater than the negative impact of a slight reduction in average selling prices and inflation.

Average selling prices declined slightly versus both the prior fiscal quarter and prior year periods. Average selling prices have been negatively affected by our growth initiatives in Asia.

Capacitors

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

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net revenues	\$111,744	\$111,749	\$217,255	\$217,911
Change versus comparable prior year period	\$(5 )		\$(656 )	
Percentage change versus comparable prior year period	0.0	%	-0.3	%

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

	vs. Prior Year Quarter		vs. Prior Year-to-Date	
Change attributable to:				
Decrease in volume	-4.3	%	-2.8	%
Increase in average selling prices	1.8	%	0.7	%
Foreign currency effects	2.0	%	1.6	%
Acquisition	0.7	%	0.3	%
Other	-0.2	%	-0.1	%
Net change	0.0	%	-0.3	%

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

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Gross profit margin	23.6%	19.2 %	22.0%	21.0 %

Net revenues for the fiscal quarter and six fiscal months ended June 28, 2014 were relatively stable versus the prior year periods, but increased considerably versus the first fiscal quarter of 2014. All regions contributed to the revenue growth, while the industrial end market and distributor sales were main contributors. The increase in gross profit margin versus the prior year periods is primarily due to the increase in average selling prices, increased efficiencies, and lower metals prices.

Average selling prices increased slightly versus both the prior fiscal quarter and the prior year periods.

On June 11, 2014, we acquired Holy Stone Polytech, a Japanese manufacturer of tantalum capacitors and formerly a subsidiary of Holy Stone Enterprise Co. Ltd., for \$20.8 million, net of cash acquired. The acquisition is expected to strengthen our position in tantalum capacitors, especially in Asia.

## Selling, General, and Administrative Expenses

Selling, general, and administrative ("SG&A") expenses are summarized as follows (dollars in thousands):

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Total SG&A expenses	\$97,156	\$92,745	\$193,463	\$183,874
as a percentage of revenues	15.1 %	15.5 %	15.5 %	16.0 %

The overall increase in SG&A expenses is primarily attributable to the non-repetition of temporary cost containment measures implemented in the first fiscal quarter of 2013 and additional compensation costs in general. We incurred additional SG&A expenses in the second fiscal quarter of 2014 to close the Holy Stone Polytech acquisition and to investigate and negotiate the pending Capella acquisition.

Several items included in SG&A expenses impact the comparability of these amounts, as summarized below (in thousands):

	Fiscal quarters ended		Six fiscal months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Amortization of intangible assets	\$3,826	\$3,737	\$7,626	\$7,447
Net loss (gain) on sales of assets	83	(51 )	23	86

On October 28, 2013, we announced a voluntary separation / early retirement program targeting SG&A expenses. See "Cost Management" above.

## Other Income (Expense)

Interest expense for the fiscal quarter ended June 28, 2014 was approximately the same as interest expense for the fiscal quarter ended June 29, 2013. Interest expense for the six fiscal months ended June 28, 2014 increased by \$0.5 million versus the fiscal months ended June 29, 2013. The increase is primarily due to higher outstanding balances on our revolving credit facility, increased amortization of the debt discounts associated with our convertible senior debentures, and changes in the values of the embedded derivative components of our convertible senior debentures.

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

	Fiscal quarters ended		Change
	June 28, 2014	June 29, 2013	
Foreign exchange gain (loss)	\$(1,001)	\$(398 )	\$(603 )
Interest income	1,261	1,073	188
Other	(52 )	109	(161 )
	\$208	\$784	\$(576 )

	Six fiscal months ended		
	June 28, 2014	June 29, 2013	Change
Foreign exchange gain (loss)	\$(1,113)	\$802	\$(1,915)
Interest income	2,484	2,307	177
Other	149	(2,210)	2,359
	\$1,520	\$899	\$621

## Income Taxes

For the fiscal quarter and six fiscal months ended June 28, 2014, our effective tax rate was 31.5%, as compared to 32.8% and 30.4%, respectively, for the fiscal quarter and six fiscal months ended June 29, 2013. The effective tax rate is generally less than the U.S. statutory rate primarily because of earnings in foreign jurisdictions.

Our effective tax rate for the six fiscal months ended June 29, 2013 includes one-time tax benefits due to the retroactive enactment of the American Taxpayer Relief Act of 2012, signed into law on January 2, 2013, of approximately \$1.3 million.

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

During the six fiscal months ended June 28, 2014, the liabilities for unrecognized tax benefits decreased by \$1.4 million on a net basis, principally due to payments offset by increases for interest.

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## Financial Condition, Liquidity, and Capital Resources

We focus on our ability to generate cash flows from operations. The cash generated from operations is used to fund our capital expenditure plans, and cash in excess of our capital expenditure needs is available to fund our acquisition strategy, to reduce debt levels, and to pay dividends and repurchase stock. We have generated cash flows from operations in excess of \$200 million in each of the past 12 years, and cash flows from operations in excess of \$100 million in each of the past 19 years.

We refer to the amount of cash generated from operations in excess of our capital expenditure needs and net of proceeds from the sale of assets as "free cash," a measure which management uses to evaluate our ability to fund acquisitions, repay debt, and otherwise enhance stockholder value through stock repurchases or dividends. Vishay has generated positive "free cash" in each of the past 17 years, and "free cash" in excess of \$80 million in each of the past 12 years. In this volatile economic environment, we continue to focus on the generation of free cash, including an emphasis on cost controls.

We continued to generate positive cash flows from operations and free cash during the fiscal quarter ended June 28, 2014. Despite a slow start in terms of free cash generation, we continue to expect cash generation in 2014 in line with our history. There is no assurance, however, that we will be able to continue to generate cash flows from operations and free cash at the same levels, or at all, going forward if the economic environment worsens.

Beginning in the fourth fiscal quarter of 2010, we have reacted to favorable market conditions to significantly reshape the company's capital structure. We have completed three issuances of low-coupon convertible debentures since the fourth fiscal quarter of 2010, each of which matures thirty years from the date of issuance. We utilized the proceeds of those debenture offerings to repurchase 44.3 million shares of our common stock, representing approximately 24% of our outstanding stock prior to implementing these initiatives. In the third fiscal quarter of 2013, a holder of our exchangeable unsecured notes exercised its option to exchange \$56.4 million principal amount of the notes for 3.7 million shares of our common stock. The exchange increases the number of our common shares outstanding, but has no effect on the calculation of the weighted average shares outstanding used for computing diluted earnings per share because our earnings per share computation assumes that the exchangeable unsecured notes would be converted, while also reducing our outstanding debt and improving our ratio of total debt to Vishay stockholders' equity.

We also entered into a new, larger, revolving credit facility in 2010, which was amended and restated on August 8, 2013. The amended and restated credit facility extends the term of our available credit, secures lower interest rates than we were previously paying for the next five years, and provides us with additional financial flexibility to pursue our growth plan. The total revolving commitment of our credit facility increased to \$640 million and we have the ability to request up to an additional \$50 million of incremental commitments, subject to the satisfaction of certain conditions. At June 28, 2014 and December 31, 2013, \$134 million and \$114 million, respectively, were outstanding under our credit facility. The credit facility provides a revolving commitment through August 8, 2018.

Borrowings under the credit facility bear interest at LIBOR plus an interest margin. The applicable interest margin is based on our leverage ratio. Based on our current leverage ratio, borrowings bear interest at LIBOR plus 1.75%. The interest rate on our borrowings will increase to LIBOR plus 2.00% if our leverage ratio equals or exceeds 2.50 to 1 and will decrease to LIBOR plus 1.50% if our leverage ratio decreases below 1.50 to 1. We are also required to pay facility fees on the entire commitment amount based on our leverage ratio. Based on our current leverage ratio, the facility fee is 0.35% per annum. Such facility fee will increase to 0.50% per annum if our leverage ratio equals or exceeds 2.50 to 1 and will decrease to 0.30% per annum if our leverage ratio decreases below 1.50 to 1.

The amendment and restatement of the credit facility also removed certain restrictions related to the incurrence and repayment of certain intercompany indebtedness, mergers, liquidations, and transfers of ownership of wholly owned subsidiaries that were present in the original credit agreement. These changes will enable us to streamline our complex subsidiary structure and provide greater operating flexibility.



The borrowings under the credit facility are secured by a lien on substantially all assets, including accounts receivable, inventory, machinery and equipment, and general intangibles (but excluding real estate, intellectual property registered or licensed for use in, or arising under the laws of, any country other than the United States, assets located outside of the United States and deposit and securities accounts), of Vishay and certain significant subsidiaries located in the United States, and pledges of stock in certain significant domestic and foreign subsidiaries; and are guaranteed by certain significant subsidiaries. Certain of our subsidiaries are permitted to borrow under the credit facility, subject to the satisfaction of specified conditions. Any borrowings by these subsidiaries under the credit facility will be guaranteed by Vishay and certain subsidiaries.

The credit facility also limits or restricts us, from, among other things, incurring indebtedness, incurring liens on assets, making investments and acquisitions, making asset sales, and making other restricted payments, and requires us to comply with other covenants, including the maintenance of specific financial ratios.

The financial maintenance covenants include (a) an interest expense coverage ratio of not less than 2.00 to 1; and (b) a leverage ratio of not more than 3.25 to 1 (and a pro forma ratio of 2.75 to 1 on the date of incurrence of additional debt, repurchase of stock, or payment of dividends). The computation of these ratios is prescribed in Article VI of the Credit Agreement between Vishay Intertechnology, Inc. and JPMorgan Chase Bank, N.A., which has been filed with the SEC as Exhibit 10.1 to our current report on Form 8-K filed August 8, 2013.

We were in compliance with all financial covenants under the credit facility at June 28, 2014. Our interest expense coverage ratio and leverage ratio were 13.15 to 1 and 1.81 to 1, respectively. We expect to continue to be in compliance with these covenants based on current projections.

If we are not in compliance with all of the required financial covenants, the credit facility could be terminated by the lenders, and all amounts outstanding pursuant to the credit facility could become immediately payable. Additionally, our exchangeable unsecured notes due 2102 and our convertible senior debentures due 2040, due 2041, and due 2042 have cross-default provisions that could accelerate repayment in the event the indebtedness under the credit facility is accelerated.

Our permitted capacity to repurchase shares of our outstanding common stock or pay cash dividends under the credit facility increases each quarter by an amount equal to 20% of net income. At June 28, 2014, our credit facility allowed us to repurchase our common stock or pay cash dividends up to \$199.2 million. On February 3, 2014, our Board of Directors instituted a quarterly dividend payment program and declared the first cash dividend in the history of Vishay. Cash dividends of \$0.06 per share of common stock and Class B common stock were paid on March 27, 2014 and June 26, 2014 to stockholders of record at the close of business on March 3, 2014 and June 12, 2014, respectively. The amount and timing of any future stock repurchases or cash dividend payments remains subject to authorization of our Board of Directors.

The balance of our revolving credit facility was \$114 million at December 31, 2013. We borrowed \$66 million and repaid \$46 million on our credit facility during the six fiscal months ended June 28, 2014. The average outstanding balance on our credit facility calculated at fiscal month-ends was \$121.5 million and the highest amount outstanding on our credit facility at a month end was \$134 million during the six fiscal months ended June 28, 2014.

If the Capella tender offer is completed, we anticipate borrowing between \$50 million and \$60 million on our revolving credit facility to achieve optimal future flexibility of the legal entity structure. Management expects to periodically pay down the balance of our revolving credit facility with available cash or use the credit facility to meet short-term financing needs. We expect that cash on-hand and cash flows from operations will be sufficient to meet our other longer-term financing needs related to normal operating requirements, regular dividend payments, and our research and development and capital expenditure plans. Additional acquisition activity or share repurchases may require additional borrowing under our credit facility or may otherwise require us to incur additional debt. No principal payments on our outstanding debt are due before the maturity of our revolving credit facility in August 2018.

Substantially all of our June 28, 2014 cash and cash equivalents and short-term investments balances were held by our non-U.S. subsidiaries. At the present time, we expect the remaining cash and profits generated by foreign subsidiaries will continue to be reinvested outside of the U.S. indefinitely. If additional cash is needed to be repatriated to the U.S., we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits), state income taxes, incremental foreign income taxes, and withholding taxes payable to various foreign countries. Our substantially undrawn credit facility provides us with significant liquidity in the U.S.

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We invest a portion of our excess cash in highly liquid, high-quality instruments with maturities greater than 90 days, but less than 1 year, which we classify as short-term investments on our consolidated condensed balance sheets. As these investments were funded using a portion of excess cash and represent a significant aspect of our cash management strategy, we include the investments in the calculation of net cash and short-term investments (debt).

The interest rates on our short-term investments average 0.5% and are approximately 26 basis points higher than interest rates on our cash accounts. Transactions related to these investments are classified as investing activities on our consolidated condensed statements of cash flows.

The following table summarizes the components of net cash and short-term investments (debt) at June 28, 2014 and December 31, 2013 (in thousands):

	June 28, 2014	December 31, 2013
Credit facility	\$ 134,000	\$ 114,000
Exchangeable unsecured notes, due 2102	38,642	38,642
Convertible senior debentures, due 2040*	102,776	101,846
Convertible senior debentures, due 2041*	52,744	52,264
Convertible senior debentures, due 2042*	58,644	58,159
Total debt	386,806	364,911
Cash and cash equivalents	659,593	640,348
Short-term investments	514,397	511,231
Net cash and short-term investments (debt)	\$ 787,184	\$ 786,668

\*Represents the carrying amount of the convertible debentures, which is comprised of the principal amount of the debentures, net of the unamortized discount and the associated embedded derivative liability.

Measurements such as "free cash" and "net cash and short-term investments (debt)" do not have uniform definitions and are not recognized in accordance with GAAP. Such measures should not be viewed as alternatives to GAAP measures of performance or liquidity. However, management believes that "free cash" is a meaningful measure of our ability to fund acquisitions, repay debt, and otherwise enhance stockholder value through stock repurchases or dividends, and that an analysis of "net cash and short-term investments (debt)" assists investors in understanding aspects of our cash and debt management. These measures, as calculated by us, may not be comparable to similarly titled measures used by other companies.

Our financial condition as of June 28, 2014 continued to be strong, with a current ratio (current assets to current liabilities) of 4.5 to 1, as compared to 4.4 to 1 as of December 31, 2013. The slight increase is primarily due to an increase in net accounts receivable and total inventories in the first six fiscal months of 2014. Our ratio of total debt to Vishay stockholders' equity as of June 28, 2014 was 0.20 to 1, as compared to 0.19 to 1 as of December 31, 2013. The slight increase is primarily due to the increase in the outstanding credit facility balance in the first six fiscal months of 2014.

Cash flows provided by operating activities were \$99.1 million for the six fiscal months ended June 28, 2014, as compared to cash flows provided by operations of \$94.1 million for the six fiscal months ended June 29, 2013.

Cash paid for property and equipment for the six fiscal months ended June 28, 2014 was \$53.3 million, as compared to \$47.2 million for the six fiscal months ended June 29, 2013. We expect capital spending of approximately \$170 million in 2014.

Cash paid for dividends to our common and Class B common stockholders totalled \$17.7 million for the six fiscal months ended June 28, 2014. We expect dividend payments in 2014 to total approximately \$35.6 million. However, any future dividend declaration and payment remains subject to authorization by our Board of Directors.

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## Contractual Commitments and Off-Balance Sheet Arrangements

Our Annual Report on Form 10-K for the year ended December 31, 2013 filed on February 19, 2014, includes a table of contractual commitments. There were no material changes to these commitments since the filing of our Annual Report on Form 10-K.

We do not participate in nor have we created any off-balance sheet variable interest entities or other off-balance sheet financing, other than the operating leases described in our Annual Report on Form 10-K for the year ended December 31, 2013.

## Dividends

On February 3, 2014, our Board of Directors approved the initiation of a quarterly cash dividend program. Cash dividends of \$0.06 per share of common stock and Class B common stock were paid on March 27, 2014 and June 26, 2014 to stockholders of record at the close of business on March 3, 2014 and June 12, 2014, respectively. We expect to continue to pay quarterly dividends, although each dividend is subject to approval by our Board of Directors.

The following table summarizes the quarterly cash dividends declared (in thousands):

<u>Fiscal Period</u>	<u>Amount</u>	<u>Month of Payment</u>
Three fiscal months ended March 29, 2014	\$ 8,847	March
Three fiscal months ended June 28, 2014	8,847	June

## Safe Harbor Statement

From time to time, information provided by us, including but not limited to statements in this report, or other statements made by or on our behalf, may contain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believe," "estimate," "will be," "will," "would," "expect," "anticipate," "plan," "project," "intend," "could," "should," or other similar words or expressions often identify forward-looking statements.

Such statements are based on current expectations only, and are subject to certain risks, uncertainties, and assumptions, many of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results, performance, or achievements may vary materially from those anticipated, estimated, or projected. Among the factors that could cause actual results to materially differ include: general business and economic conditions; difficulties in identifying suitable acquisition candidates, consummating a transaction on terms which we consider acceptable, and integration and performance of acquired businesses, including with respect to the pending Capella acquisition; difficulties in new product development; changes in competition and technology in the markets that we serve and the mix of our products required to address these changes; an inability to attract and retain highly qualified personnel, particularly in respect of our acquired businesses; uncertainty related to the effects of changes in foreign currency exchange rates; difficulties in implementing our cost management strategies; and other factors affecting our operations, markets, products, services, and prices that are set forth in our filings with the SEC, including our annual reports on Form 10-K and our quarterly reports on Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Our 2013 Annual Report on Form 10-K listed various important factors that could cause actual results to differ materially from projected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I, Item 1A, of that filing under the heading "Risk Factors." You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.





Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our market risks since December 31, 2013. For a discussion of our exposure to market risks, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 19, 2014.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

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## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Item 3 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 19, 2014, describes certain of our legal proceedings. There have been no material developments to the legal proceedings previously disclosed.

The Company has been named as a defendant in purported antitrust class action complaints filed by Chip-Tech, Ltd. on July 18, 2014, and by Dependable Component Supply Corp. on July 22, 2014, in the United States District Court for the Northern District of California. The complaints allege restraint of trade in aluminum and tantalum electrolytic capacitors by the Company and 27 other manufacturers, and seek injunctive relief and unspecified joint and several treble damages. The Company intends to defend vigorously against the complaints.

### Item 1A. Risk Factors

Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 19, 2014, contains risk factors identified by Vishay. There have been no material changes to the risk factors we previously disclosed.

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

Not applicable.

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

Not applicable.

### Item 6. Exhibits

- 10.1 Amended and Restated Vishay Intertechnology, Inc. 2007 Stock Incentive Program. Incorporated by reference to Annex A to our definitive proxy statement, dated April 4, 2014, for our 2014 Annual Meeting of Stockholders.
- 10.2 Vishay Intertechnology, Inc. Form of Executive Officer Restricted Stock Unit Agreement. Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, filed on May 21, 2014.
- 10.3 Vishay Intertechnology, Inc. Form of Restricted Stock Unit Agreement. Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K, filed on May 21, 2014.
- 10.4 Vishay Intertechnology, Inc. Form of Executive Officer Phantom Stock Unit Agreement. Incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K, filed on May 21, 2014.
- 31.1 Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Dr. Gerald Paul, Chief Executive Officer.
- 31.2 Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Lori Lipcaman, Chief Financial Officer.

- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Dr. Gerald Paul, Chief Executive Officer.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Lori Lipcaman, Chief Financial Officer.
- 101 Interactive Data File (Quarterly Report on Form 10-Q, for the quarterly period ended June 28, 2014, furnished in XBRL (eXtensible Business Reporting Language)).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VISHAY  
INTERTECHNOLOGY,  
INC.

/s/ Lori Lipcaman  
Lori Lipcaman  
Executive Vice President  
and Chief Financial  
Officer  
(as a duly authorized  
officer and principal  
financial and  
accounting officer)

Date: July 29, 2014  
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