

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 **October 2, 2021**

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 **001-07416**

Vishay Intertechnology, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation)

38-1686453

(I.R.S. Employer Identification Number)

**63 Lancaster Avenue
Malvern, Pennsylvania 19355-2143**

(Address of Principal Executive Offices)

610-644-1300

(Registrant's Area Code and Telephone Number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of exchange on which registered
Common stock, par value \$0.10 per share	VSH	New York Stock Exchange LLC

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 every Interactive Data File required to be submitted 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 such files.)

Yes No

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

Large Accelerated Filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

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

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

Yes No

As of October 29, 2021 the registrant had 132,710,732 shares of its common stock and 12,097,148 shares of its Class B common stock outstanding.

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VISHAY INTERTECHNOLOGY, INC.
FORM 10-Q
October 2, 2021
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VISHAY INTERTECHNOLOGY, INC.

Consolidated Condensed Balance Sheets

(In thousands)

	<u>October 2, 2021</u>	<u>December 31, 2020</u>
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 831,760	\$ 619,874
Short-term investments	84,177	158,476
Accounts receivable, net	378,523	338,632
Inventories:		
Finished goods	152,769	120,792
Work in process	223,355	201,259
Raw materials	156,544	126,200
Total inventories	<u>532,668</u>	<u>448,251</u>
Prepaid expenses and other current assets	146,870	132,103
Total current assets	<u>1,973,998</u>	<u>1,697,336</u>
Property and equipment, at cost:		
Land	75,063	76,231
Buildings and improvements	632,219	641,041
Machinery and equipment	2,746,511	2,732,771
Construction in progress	112,157	86,520
Allowance for depreciation	<u>(2,640,993)</u>	<u>(2,593,398)</u>
Property and equipment, net	924,957	943,165
Right of use assets	110,083	102,440
Goodwill	157,683	158,183
Other intangible assets, net	59,583	66,795
Other assets	197,974	186,554
Total assets	<u>\$ 3,424,278</u>	<u>\$ 3,154,473</u>

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

	<u>October 2,</u> <u>2021</u>	<u>December</u> <u>31, 2020</u>
	(Unaudited)	
Liabilities, temporary equity, and equity		
Current liabilities:		
Trade accounts payable	\$ 221,666	\$ 196,203
Payroll and related expenses	155,792	141,034
Lease liabilities	21,583	22,074
Other accrued expenses	206,045	182,642
Income taxes	40,648	20,470
Total current liabilities	<u>645,734</u>	<u>562,423</u>
Long-term debt less current portion	454,848	394,886
U.S. transition tax payable	110,681	125,438
Deferred income taxes	1,843	1,852
Long-term lease liabilities	94,064	86,220
Other liabilities	105,880	104,356
Accrued pension and other postretirement costs	283,049	300,113
Total liabilities	<u>1,696,099</u>	<u>1,575,288</u>
Redeemable convertible debentures	-	170
Equity:		
Vishay stockholders' equity		
Common stock	13,271	13,256
Class B convertible common stock	1,210	1,210
Capital in excess of par value	1,346,980	1,409,200
Retained earnings	379,672	138,990
Accumulated other comprehensive income (loss)	(15,613)	13,559
Total Vishay stockholders' equity	<u>1,725,520</u>	<u>1,576,215</u>
Noncontrolling interests	2,659	2,800
Total equity	<u>1,728,179</u>	<u>1,579,015</u>
Total liabilities, temporary equity, and equity	<u>\$ 3,424,278</u>	<u>\$ 3,154,473</u>

See accompanying notes.

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

	Fiscal quarters ended	
	October 2, 2021	October 3, 2020
Net revenues	\$ 813,663	\$ 640,160
Costs of products sold	<u>587,927</u>	<u>488,451</u>
Gross profit	225,736	151,709
Selling, general, and administrative expenses	<u>102,215</u>	<u>90,219</u>
Operating income	123,521	61,490
Other income (expense):		
Interest expense	(4,427)	(7,414)
Loss on early extinguishment of debt	-	(3,454)
Other	<u>(2,679)</u>	<u>(4,898)</u>
Total other income (expense)	<u>(7,106)</u>	<u>(15,766)</u>
Income before taxes	116,415	45,724
Income tax expense	<u>19,333</u>	<u>12,063</u>
Net earnings	97,082	33,661
Less: net earnings attributable to noncontrolling interests	262	177
Net earnings attributable to Vishay stockholders	<u>\$ 96,820</u>	<u>\$ 33,484</u>
Basic earnings per share attributable to Vishay stockholders	\$ 0.67	\$ 0.23
Diluted earnings per share attributable to Vishay stockholders	\$ 0.67	\$ 0.23
Weighted average shares outstanding - basic	145,017	144,854
Weighted average shares outstanding - diluted	145,458	145,197
Cash dividends per share	\$ 0.095	\$ 0.095

See accompanying notes.

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

	Fiscal quarters ended	
	October 2, 2021	October 3, 2020
Net earnings	\$ 97,082	\$ 33,661
Other comprehensive income (loss), net of tax		
Pension and other post-retirement actuarial items	1,850	1,886
Foreign currency translation adjustment	<u>(17,242)</u>	<u>21,100</u>
Other comprehensive income (loss)	<u>(15,392)</u>	<u>22,986</u>
Comprehensive income	<u>81,690</u>	<u>56,647</u>
Less: comprehensive income attributable to noncontrolling interests	262	177
Comprehensive income attributable to Vishay stockholders	<u>\$ 81,428</u>	<u>\$ 56,470</u>

See accompanying notes.

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

	Nine fiscal months ended	
	October 2, 2021	October 3, 2020
Net revenues	\$ 2,397,415	\$ 1,834,718
Costs of products sold	<u>1,739,458</u>	<u>1,405,099</u>
Gross profit	657,957	429,619
Selling, general, and administrative expenses	311,800	279,178
Restructuring and severance costs	<u>-</u>	<u>743</u>
Operating income	346,157	149,698
Other income (expense):		
Interest expense	(13,246)	(24,396)
Loss on early extinguishment of debt	-	(7,520)
Other	<u>(12,159)</u>	<u>(6,184)</u>
Total other income (expense)	<u>(25,405)</u>	<u>(38,100)</u>
Income before taxes	320,752	111,598
Income tax expense	<u>58,646</u>	<u>25,658</u>
Net earnings	262,106	85,940
Less: net earnings attributable to noncontrolling interests	659	584
Net earnings attributable to Vishay stockholders	<u>\$ 261,447</u>	<u>\$ 85,356</u>
Basic earnings per share attributable to Vishay stockholders	\$ 1.80	\$ 0.59
Diluted earnings per share attributable to Vishay stockholders	\$ 1.80	\$ 0.59
Weighted average shares outstanding - basic	145,000	144,831
Weighted average shares outstanding - diluted	145,455	145,221
Cash dividends per share	\$ 0.285	\$ 0.285

See accompanying notes.

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

	Nine fiscal months ended	
	October 2,	October 3,
	2021	2020
Net earnings	\$ 262,106	\$ 85,940
Other comprehensive income (loss), net of tax		
Pension and other post-retirement actuarial items	5,734	5,247
Foreign currency translation adjustment	<u>(34,906)</u>	<u>18,059</u>
Other comprehensive income (loss)	<u>(29,172)</u>	<u>23,306</u>
Comprehensive income	<u>232,934</u>	<u>109,246</u>
Less: comprehensive income attributable to noncontrolling interests	659	584
Comprehensive income attributable to Vishay stockholders	<u>\$ 232,275</u>	<u>\$ 108,662</u>

See accompanying notes.

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

	Nine fiscal months ended	
	October 2, 2021	October 3, 2020
Operating activities		
Net earnings	\$ 262,106	\$ 85,940
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	125,095	123,776
(Gain) loss on disposal of property and equipment	(254)	257
Accretion of interest on convertible debt instruments	-	10,232
Inventory write-offs for obsolescence	14,960	17,891
Deferred income taxes	(4,208)	(1,142)
Loss on early extinguishment of debt	-	7,520
Other	8,376	3,188
Change in U.S. transition tax liability	(14,757)	(14,757)
Change in repatriation tax liability	-	(16,258)
Net change in operating assets and liabilities, net of effects of business acquired	(80,866)	(27,408)
Net cash provided by operating activities	<u>310,452</u>	<u>189,239</u>
Investing activities		
Capital expenditures	(118,156)	(70,801)
Proceeds from sale of property and equipment	1,257	293
Purchase of business, net of cash acquired	-	(25,852)
Purchase of short-term investments	(55,491)	(157,177)
Maturity of short-term investments	126,171	241,016
Other investing activities	347	(529)
Net cash used in investing activities	<u>(45,872)</u>	<u>(13,050)</u>
Financing activities		
Repurchase of convertible debt instruments	(300)	(148,177)
Net changes in short-term borrowings	-	(110)
Dividends paid to common stockholders	(37,823)	(37,779)
Dividends paid to Class B common stockholders	(3,448)	(3,448)
Distributions to noncontrolling interests	(800)	(600)
Cash withholding taxes paid when shares withheld for vested equity awards	(1,963)	(2,016)
Net cash used in financing activities	<u>(44,334)</u>	<u>(192,130)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(8,360)</u>	<u>4,230</u>
Net increase (decrease) in cash and cash equivalents	<u>211,886</u>	<u>(11,711)</u>
Cash and cash equivalents at beginning of period	<u>619,874</u>	<u>694,133</u>
Cash and cash equivalents at end of period	<u>\$ 831,760</u>	<u>\$ 682,422</u>

See accompanying notes.

VISHAY INTERTECHNOLOGY, INC.

Consolidated Condensed Statements of Equity

(Unaudited - In thousands, except share and per share amounts)

	Common Stock	Class B Convertible Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Vishay Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2019	\$ 13,235	\$ 1,210	\$ 1,425,170	\$ 72,180	\$ (26,646)	\$ 1,485,149	\$ 2,540	\$ 1,487,689
Cumulative effect of accounting change for adoption of ASU 2016-13	-	-	-	(1,070)	-	(1,070)	-	(1,070)
Net earnings	-	-	-	27,219	-	27,219	165	27,384
Other comprehensive income	-	-	-	-	(21,528)	(21,528)	-	(21,528)
Temporary equity reclassification	-	-	174	-	-	174	-	174
Issuance of stock and related tax withholdings for vested restricted stock units (199,251 shares)	20	-	(2,011)	-	-	(1,991)	-	(1,991)
Dividends declared (\$0.095 per share)	-	-	18	(13,759)	-	(13,741)	-	(13,741)
Stock compensation expense	-	-	2,998	-	-	2,998	-	2,998
Repurchase of convertible senior debentures due 2041	-	-	(10,089)	-	-	(10,089)	-	(10,089)
Balance at April 4, 2020	\$ 13,255	\$ 1,210	\$ 1,416,260	\$ 84,570	\$ (48,174)	\$ 1,467,121	\$ 2,705	\$ 1,469,826
Net earnings	-	-	-	24,653	-	24,653	242	24,895
Other comprehensive income	-	-	-	-	21,848	21,848	-	21,848
Distributions to noncontrolling interests	-	-	-	-	-	-	(600)	(600)
Issuance of stock and related tax withholdings for vested restricted stock units (13,141 shares)	1	-	(26)	-	-	(25)	-	(25)
Dividends declared (\$0.095 per share)	-	-	18	(13,761)	-	(13,743)	-	(13,743)
Stock compensation expense	-	-	875	-	-	875	-	875
Repurchase of convertible senior notes due 2025	-	-	(4,352)	-	-	(4,352)	-	(4,352)
Balance at July 4, 2020	\$ 13,256	\$ 1,210	\$ 1,412,775	\$ 95,462	\$ (26,326)	\$ 1,496,377	\$ 2,347	\$ 1,498,724
Net earnings	-	-	-	33,484	-	33,484	177	33,661
Other comprehensive income	-	-	-	-	22,986	22,986	-	22,986
Dividends declared (\$0.095 per share)	-	-	19	(13,762)	-	(13,743)	-	(13,743)
Stock compensation expense	-	-	732	-	-	732	-	732
Repurchase of convertible senior notes due 2025	-	-	(3,191)	-	-	(3,191)	-	(3,191)
Balance at October 3, 2020	\$ 13,256	\$ 1,210	\$ 1,410,335	\$ 115,184	\$ (3,340)	\$ 1,536,645	\$ 2,524	\$ 1,539,169

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VISHAY INTERTECHNOLOGY, INC.

Consolidated Condensed Statements of Equity (continued)

(Unaudited - In thousands, except share and per share amounts)

	Common Stock	Class B Convertible Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Vishay Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2020	\$ 13,256	\$ 1,210	\$ 1,409,200	\$ 138,990	\$ 13,559	\$ 1,576,215	\$ 2,800	\$ 1,579,015
Cumulative effect of accounting change for adoption of ASU 2020-06 (see Note 1)	-	-	(66,078)	20,566	-	(45,512)	-	(45,512)
Net earnings	-	-	-	71,435	-	71,435	208	71,643
Other comprehensive income	-	-	-	-	(25,085)	(25,085)	-	(25,085)
Issuance of stock and related tax withholdings for vested restricted stock units (149,722 shares)	15	-	(1,978)	-	-	(1,963)	-	(1,963)
Dividends declared (\$0.095 per share)	-	-	20	(13,777)	-	(13,757)	-	(13,757)
Stock compensation expense	-	-	4,120	-	-	4,120	-	4,120
Balance at April 3, 2021	<u>\$ 13,271</u>	<u>\$ 1,210</u>	<u>\$ 1,345,284</u>	<u>\$ 217,214</u>	<u>\$ (11,526)</u>	<u>\$ 1,565,453</u>	<u>\$ 3,008</u>	<u>\$ 1,568,461</u>
Net earnings	-	-	-	93,192	-	93,192	189	93,381
Other comprehensive income	-	-	-	-	11,305	11,305	-	11,305
Distributions to noncontrolling interests	-	-	-	-	-	-	(800)	(800)
Dividends declared (\$0.095 per share)	-	-	20	(13,777)	-	(13,757)	-	(13,757)
Stock compensation expense	-	-	828	-	-	828	-	828
Balance at July 3, 2021	<u>\$ 13,271</u>	<u>\$ 1,210</u>	<u>\$ 1,346,132</u>	<u>\$ 296,629</u>	<u>\$ (221)</u>	<u>\$ 1,657,021</u>	<u>\$ 2,397</u>	<u>\$ 1,659,418</u>
Net earnings	-	-	-	96,820	-	96,820	262	97,082
Other comprehensive income	-	-	-	-	(15,392)	(15,392)	-	(15,392)
Dividends declared (\$0.095 per share)	-	-	20	(13,777)	-	(13,757)	-	(13,757)
Stock compensation expense	-	-	828	-	-	828	-	828
Balance at October 2, 2021	<u>\$ 13,271</u>	<u>\$ 1,210</u>	<u>\$ 1,346,980</u>	<u>\$ 379,672</u>	<u>\$ (15,613)</u>	<u>\$ 1,725,520</u>	<u>\$ 2,659</u>	<u>\$ 1,728,179</u>

See accompanying notes.

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, 2020. The results of operations for the fiscal quarter and nine fiscal months ended October 2, 2021 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 2021 end on April 3, 2021, July 3, 2021, October 2, 2021, and December 31, 2021, respectively. The four fiscal quarters in 2020 ended on April 4, 2020, July 4, 2020, October 3, 2020, and December 31, 2020, respectively.

Recently Adopted Accounting Guidance

In August 2020, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2020-06, *Debt – Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*. The ASU simplifies the accounting for certain financial instruments with characteristics of liability and equity, including convertible debt instruments. The ASU reduces the number of accounting models available for convertible debt instruments, requires the use of the if-converted method for the calculation of diluted earnings per share for convertible debt instruments, and increases disclosure requirements. The Company adopted the ASU effective January 1, 2021 using a modified retrospective approach. Upon adoption, Company recorded a \$66,078 decrease in additional paid in capital from the derecognition of the bifurcated equity component of the convertible debt instruments, a \$59,246 increase in debt from the derecognition of the discount associated with the bifurcated equity component of the convertible debt instruments and a \$20,566 increase to the opening balance of retained earnings, representing the cumulative interest expense, net of tax effects, recognized related to the amortization of the bifurcated conversion option. The adoption of the ASU did not have a significant impact on the diluted sharecount due to Vishay exercising existing rights to legally amend the indenture governing the convertible senior notes due 2025. See Note 5.

Reclassifications

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

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

Note 2 – Leases

The net right of use assets and lease liabilities recognized on the consolidated condensed balance sheets for the Company's operating leases were as follows:

	<u>October 2, 2021</u>	<u>December 31, 2020</u>
Right of use assets		
<i>Operating Leases</i>		
Buildings and improvements	\$ 105,072	\$ 97,429
Machinery and equipment	5,011	5,011
Total	<u>\$ 110,083</u>	<u>\$ 102,440</u>
Current lease liabilities		
<i>Operating Leases</i>		
Buildings and improvements	\$ 18,944	\$ 19,370
Machinery and equipment	2,639	2,704
Total	<u>\$ 21,583</u>	<u>\$ 22,074</u>
Long-term lease liabilities		
<i>Operating Leases</i>		
Buildings and improvements	\$ 91,744	\$ 83,926
Machinery and equipment	2,320	2,294
Total	<u>\$ 94,064</u>	<u>\$ 86,220</u>
Total lease liabilities	<u>\$ 115,647</u>	<u>\$ 108,294</u>

Lease expense is classified in the statements of operations based on asset use. Total lease cost recognized on the consolidated condensed statements of operations is as follows:

	<u>Fiscal quarters ended</u>		<u>Nine fiscal months ended</u>	
	<u>October 2, 2021</u>	<u>October 3, 2020</u>	<u>October 2, 2021</u>	<u>October 3, 2020</u>
Lease expense				
Operating lease expense	\$ 6,170	\$ 5,898	\$ 18,570	\$ 17,310
Short-term lease expense	691	260	1,444	679
Variable lease expense	97	11	290	40
Total lease expense	<u>\$ 6,958</u>	<u>\$ 6,169</u>	<u>\$ 20,304</u>	<u>\$ 18,029</u>

The Company paid \$18,000 and \$18,703 for its operating leases in the nine fiscal months ended October 2, 2021 and October 3, 2020, respectively, which are included in operating cash flows on the consolidated condensed statements of cash flows. The weighted-average remaining lease term for the Company's operating leases is 9.3 years and the weighted-average discount rate is 5.6% as of October 2, 2021.

The undiscounted future lease payments for the Company's operating lease liabilities are as follows:

	<u>October 2, 2021</u>
2021 (excluding the nine fiscal months ended October 2, 2021)	\$ 5,692
2022	21,305
2023	19,061
2024	16,745
2025	15,255
Thereafter	71,276

The undiscounted future lease payments presented in the table above include payments through the term of the lease, which may include periods beyond the noncancellable term. The difference between the total payments above and the lease liability balance is due to the discount rate used to calculate lease liabilities.

Note 3 – Restructuring and Related Activities

In 2019, the Company announced global cost reduction and management rejuvenation programs as part of its continuous efforts to improve efficiency and operating performance. The programs were primarily designed to reduce manufacturing fixed costs and selling, general, and administrative costs company-wide, and provide management rejuvenation. These programs are fully implemented. The Company incurred total charges of \$24,882, primarily related to cash severance costs, to implement these programs.

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

Expense recorded in 2019	\$ 24,139
Cash paid	(1,330)
Foreign currency translation	35
Balance at December 31, 2019	<u>\$ 22,844</u>
Expense recorded in 2020	743
Cash paid	(10,813)
Foreign currency translation	683
Balance at December 31, 2020	<u>\$ 13,457</u>
Cash paid	(10,624)
Foreign currency translation	(86)
Balance at October 2, 2021	<u><u>\$ 2,747</u></u>

The payment terms vary by country, but generally are paid in a lump sum at cessation of employment. Some payments are made over an extended period. The current portion of the liability is \$1,738 and is included in other accrued expenses on the consolidated condensed balance sheet. The non-current portion of the liability is \$1,009 and is included in other liabilities on the consolidated condensed balance sheet.

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 October 2, 2021 and October 3, 2020 reflect the Company's expected tax rate on reported income 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.

The Company adjusted its deferred tax balances by \$12,127 upon the adoption of ASU No. 2020-06 on January 1, 2021, which was included in the cumulative-effect adjustment recorded to retained earnings. See Note 1.

The Company recognized tax benefits of \$5,714 due to the release of a valuation allowance during the fiscal quarter ended October 2, 2021. The Company also recognized tax benefits of \$8,276 due to changes in tax regulations during the nine fiscal months ended October 2, 2021.

During the nine fiscal months ended October 2, 2021, the liabilities for unrecognized tax benefits decreased by \$1,328 on a net basis, primarily due to a payment, statute expiration, and currency translation adjustments, partially offset by accruals for current year tax positions and interest.

Note 5 – Long-Term Debt

Long-term debt consists of the following:

	<u>October 2, 2021</u>	<u>December 31, 2020</u>
Credit facility	\$ -	\$ -
Convertible senior notes, due 2025	465,344	406,268
Convertible senior debentures, due 2040	-	130
Deferred financing costs	<u>(10,496)</u>	<u>(11,512)</u>
	454,848	394,886
Less current portion	-	-
	<u>\$ 454,848</u>	<u>\$ 394,886</u>

The following table summarizes some key facts and terms regarding the outstanding convertible senior notes due 2025 as of October 2, 2021:

	<u>Convertible Senior Notes Due 2025</u>
Issuance date	June 12, 2018
Maturity date	June 15, 2025
Principal amount as of October 2, 2021	\$ 465,344
Cash coupon rate (per annum)	2.25%
Nonconvertible debt borrowing rate at issuance (per annum)	5.50%
Conversion rate effective September 9, 2021 (per \$1 principal amount)	31.9258
Effective conversion price effective September 9, 2021 (per share)	\$ 31.32
130% of the conversion price (per share)	\$ 40.72
Call date	n/a

Effective January 1, 2021, Vishay adopted ASU No. 2020-06. Upon adoption, Vishay derecognized the bifurcated equity component, debt discount, and deferred taxes and remeasured the deferred financing costs associated with its convertible debt instruments. See Note 1. The carrying value of Vishay's convertible debt instruments is now equal to the outstanding principal amount and interest expense is now equal to the cash interest paid. The remeasured deferred financing costs continue to be recognized as non-cash interest expense.

Prior to December 15, 2024, the holders of the convertible senior notes due 2025 may convert their notes only under the following circumstances: (1) during any fiscal quarter after the fiscal quarter ending September 29, 2018, if the sale price of Vishay common stock reaches 130% of the conversion price for a specified period; (2) the trading price of the notes falls below 98% of the product of the sale price of Vishay's common stock and the conversion rate for a specified period; or (3) upon the occurrence of specified corporate transactions. The convertible senior notes due 2025 are not currently convertible.

Upon conversion of the convertible senior notes due 2025, Vishay will satisfy its conversion obligations by paying \$1 cash per \$1 principal amount of converted notes and settle any additional amounts due in common stock.

The quarterly cash dividend program of the Company results in adjustments to the conversion rate and effective conversion price for the convertible senior notes due 2025 effective as of the ex-dividend date of each cash dividend. The conversion rate and effective conversion price for the convertible senior notes due 2025 is adjusted for quarterly cash dividends to the extent such dividends exceed \$0.085 per share of common stock.

As of December 31, 2020, there were \$300 of convertible senior debentures due 2040 outstanding. On January 5, 2021, Vishay gave notice to the holders of its convertible senior debentures due 2040 that Vishay would redeem the debentures on February 4, 2021. The redemption price was paid in cash and was equal to 100% of the principal amount plus accrued but unpaid interest to, but excluding February 4, 2021.

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The carrying value of the convertible senior notes due 2025 was \$465,344 as of October 2, 2021. The carrying value of the liability and equity components of the convertible debt instruments prior to the adoption of ASU No. 2020-06 are reflected in the Company's consolidated condensed balance sheet as follows:

	<u>Principal amount of the debt instruments</u>	<u>Unamortized discount</u>	<u>Carrying value of liability component</u>	<u>Equity component (including temporary equity) -net carrying value</u>
December 31, 2020				
Convertible senior notes due 2025	\$ 465,344	(59,076)	\$ 406,268	\$ 66,127
Convertible senior debentures due 2040	\$ 300	(170)	\$ 130	\$ 121
Total	<u>\$ 465,644</u>	<u>\$ (59,246)</u>	<u>\$ 406,398</u>	<u>\$ 66,248</u>

Interest is payable on the convertible debt instruments semi-annually at the cash coupon rate. Prior to the adoption of ASU 2020-06 on January 1, 2021, the debt discount associated with the convertible debt instruments was 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.

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

	<u>Contractual coupon interest</u>	<u>Non-cash amortization of debt discount</u>	<u>Other non- cash interest expense</u>	<u>Total interest expense related to the debt instruments</u>
October 2, 2021				
Convertible senior notes due 2025	\$ 2,618	-	433	\$ 3,051
October 3, 2020				
Convertible senior notes due 2025	\$ 2,839	3,099	382	\$ 6,320
Convertible senior debentures	\$ 16	8	-	\$ 24
Total	<u>\$ 2,855</u>	<u>\$ 3,107</u>	<u>\$ 382</u>	<u>\$ 6,344</u>

Interest expense related to the convertible debt instruments is reflected on the consolidated condensed statements of operations for the nine fiscal months ended:

	<u>Contractual coupon interest</u>	<u>Non-cash amortization of debt discount</u>	<u>Other non- cash interest expense</u>	<u>Total interest expense related to the debt instruments</u>
October 2, 2021				
Convertible senior notes due 2025	\$ 7,854	-	1,299	\$ 9,153
October 3, 2020				
Convertible senior notes due 2025	\$ 9,480	10,195	1,271	\$ 20,946
Convertible senior debentures	\$ 76	37	-	\$ 113
Total	<u>\$ 9,556</u>	<u>\$ 10,232</u>	<u>\$ 1,271</u>	<u>\$ 21,059</u>

Other non-cash interest expense includes amortization of deferred financing costs. Interest expense related to the convertible senior debentures was immaterial in 2021.

Note 6 – Revenue Recognition

Sales returns and allowances accrual activity is shown below:

	Fiscal quarters ended		Nine fiscal months ended	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Beginning balance	\$ 41,262	\$ 39,432	\$ 39,629	\$ 40,508
Sales allowances	22,850	22,190	68,689	64,046
Credits issued	(28,948)	(27,610)	(72,744)	(70,583)
Foreign currency	(314)	534	(724)	575
Ending balance	<u>\$ 34,850</u>	<u>\$ 34,546</u>	<u>\$ 34,850</u>	<u>\$ 34,546</u>

Note 7 – 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	Total
Balance at January 1, 2021	\$ (77,075)	\$ 90,634	\$ 13,559
Other comprehensive income before reclassifications	-	(34,906)	\$ (34,906)
Tax effect	-	-	\$ -
Other comprehensive income before reclassifications, net of tax	-	(34,906)	\$ (34,906)
Amounts reclassified out of AOCI	7,951	-	\$ 7,951
Tax effect	(2,217)	-	\$ (2,217)
Amounts reclassified out of AOCI, net of tax	5,734	-	\$ 5,734
Net other comprehensive income	\$ 5,734	\$ (34,906)	\$ (29,172)
Balance at October 2, 2021	\$ (71,341)	\$ 55,728	\$ (15,613)

Reclassifications of pension and other post-retirement actuarial items out of AOCI are included in the computation of net periodic benefit cost. See Note 8 for further information.

Note 8 – Pensions and Other Postretirement Benefits

The Company maintains various retirement benefit plans. The service cost component of net periodic pension cost is classified in costs of products sold or selling, general, and administrative expenses on the consolidated condensed statements of operations based on the respective employee's function. The other components of net periodic pension cost are classified as other expense on the consolidated condensed statements of operations.

Defined Benefit Pension Plans

The following table shows the components of the net periodic pension cost for the third fiscal quarters of 2021 and 2020 for the Company's defined benefit pension plans:

	Fiscal quarter ended October 2, 2021		Fiscal quarter ended October 3, 2020	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Net service cost	\$ -	\$ 1,167	\$ -	\$ 1,115
Interest cost	254	738	342	961
Expected return on plan assets	-	(414)	-	(504)
Amortization of prior service cost	36	49	36	31
Amortization of losses	447	1,851	298	1,671
Curtailment and settlement losses	-	203	-	317
Net periodic benefit cost	<u>\$ 737</u>	<u>\$ 3,594</u>	<u>\$ 676</u>	<u>\$ 3,591</u>

The following table shows the components of the net periodic pension cost for the nine fiscal months ended October 2, 2021 and October 3, 2020 for the Company's defined benefit pension plans:

	Nine fiscal months ended October 2, 2021		Nine fiscal months ended October 3, 2020	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Net service cost	\$ -	\$ 3,548	\$ -	\$ 3,260
Interest cost	762	2,246	1,025	2,804
Expected return on plan assets	-	(1,250)	-	(1,490)
Amortization of prior service cost	108	150	108	91
Amortization of losses	1,340	5,622	893	4,851
Curtailment and settlement losses	-	604	-	777
Net periodic benefit cost	<u>\$ 2,210</u>	<u>\$ 10,920</u>	<u>\$ 2,026</u>	<u>\$ 10,293</u>

Other Postretirement Benefits

The following table shows the components of the net periodic benefit cost for the third fiscal quarters of 2021 and 2020 for the Company's other postretirement benefit plans:

	Fiscal quarter ended October 2, 2021		Fiscal quarter ended October 3, 2020	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	\$ 25	\$ 70	\$ 28	\$ 73
Interest cost	41	10	59	16
Amortization of losses (gains)	13	29	7	33
Net periodic benefit cost	<u>\$ 79</u>	<u>\$ 109</u>	<u>\$ 94</u>	<u>\$ 122</u>

The following table shows the components of the net periodic pension cost for the nine fiscal months ended October 2, 2021 and October 3, 2020 for the Company's other postretirement benefit plans:

	Nine fiscal months ended October 2, 2021		Nine fiscal months ended October 3, 2020	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	\$ 76	\$ 211	\$ 84	\$ 210
Interest cost	123	32	177	47
Amortization of losses (gains)	39	88	20	95
Net periodic benefit cost	<u>\$ 238</u>	<u>\$ 331</u>	<u>\$ 281</u>	<u>\$ 352</u>

Note 9 – 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 Company determines compensation cost for restricted stock units (“RSUs”) and phantom stock units 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		Nine fiscal months ended	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Restricted stock units	\$ 828	\$ 732	\$ 5,567	4,390
Phantom stock units	-	-	209	215
Total	\$ 828	\$ 732	\$ 5,776	4,605

The following table summarizes unrecognized compensation cost and the weighted average remaining amortization periods at October 2, 2021 (amortization periods in years):

	Unrecognized Compensation Cost	Weighted Average Remaining Amortization Periods
Restricted stock units	\$ 4,229	0.9
Phantom stock units	-	n/a
Total	\$ 4,229	

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

Restricted Stock Units

RSU activity under the 2007 Program as of October 2, 2021 and changes during the nine 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, 2021	793	\$ 18.90
Granted	319	22.07
Vested*	(235)	18.79
Cancelled or forfeited	-	-
Outstanding at October 2, 2021	<u>877</u>	<u>\$ 20.08</u>
Expected to vest at October 2, 2021	<u>877</u>	

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

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

Vesting Date	Expected to Vest	Not Expected to Vest	Total
January 1, 2022	174	-	174
January 1, 2023	152	-	152
January 1, 2024	165	-	165

Phantom Stock Units

Phantom stock unit activity under the phantom stock plan as of October 2, 2021 and changes during the nine 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, 2021	198	
Granted	10	\$ 20.89
Dividend equivalents issued	3	
Outstanding at October 2, 2021	<u>211</u>	

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Note 10 – Segment Information

The following tables set forth business segment information:

	<u>MOSFETs</u>	<u>Diodes</u>	<u>Optoelectronic Components</u>	<u>Resistors</u>	<u>Inductors</u>	<u>Capacitors</u>	<u>Corporate / Other*</u>	<u>Total</u>
<u>Fiscal quarter ended October 2,</u>								
<u>2021:</u>								
Net revenues	\$ 175,499	\$ 185,306	\$ 70,750	\$ 181,189	\$ 84,816	\$ 116,103	\$ -	\$ 813,663
Gross profit	\$ 53,868	\$ 46,756	\$ 23,810	\$ 49,729	\$ 26,857	\$ 24,716	\$ -	\$ 225,736
Segment operating income	\$ 43,717	\$ 41,363	\$ 19,708	\$ 43,547	\$ 24,368	\$ 19,913	\$ -	\$ 192,616
<u>Fiscal quarter ended October 3,</u>								
<u>2020:</u>								
Net revenues	\$ 133,976	\$ 123,744	\$ 64,955	\$ 145,362	\$ 79,399	\$ 92,724	\$ -	\$ 640,160
Gross profit	\$ 29,649	\$ 20,843	\$ 21,289	\$ 35,186	\$ 26,597	\$ 18,387	\$ (242)	\$ 151,709
Segment operating income	\$ 20,148	\$ 15,828	\$ 17,184	\$ 30,127	\$ 24,106	\$ 13,703	\$ (242)	\$ 120,854
<u>Nine fiscal months ended October 2,</u>								
<u>2021:</u>								
Net revenues	\$ 496,659	\$ 517,299	\$ 224,316	\$ 562,513	\$ 253,813	\$ 342,815	\$ -	\$ 2,397,415
Gross Profit	\$ 138,410	\$ 122,929	\$ 73,958	\$ 161,631	\$ 83,288	\$ 77,741	\$ -	\$ 657,957
Segment Operating Income	\$ 108,434	\$ 106,304	\$ 61,070	\$ 142,288	\$ 75,902	\$ 62,462	\$ -	\$ 556,460
<u>Nine fiscal months ended October 3,</u>								
<u>2020:</u>								
Net revenues	\$ 369,813	\$ 363,274	\$ 168,264	\$ 444,982	\$ 218,369	\$ 270,016	\$ -	\$ 1,834,718
Gross Profit	\$ 84,779	\$ 65,265	\$ 47,602	\$ 112,472	\$ 69,836	\$ 53,960	\$ (4,295)	\$ 429,619
Segment Operating Income	\$ 56,408	\$ 50,064	\$ 35,818	\$ 96,891	\$ 62,129	\$ 39,297	\$ (4,295)	\$ 336,312

*Amounts reported in Corporate/Other above represent unallocated costs directly related to the COVID-19 pandemic, which are reported as costs of products sold on the consolidated condensed statements of operations.

	<u>Fiscal quarters ended</u>		<u>Nine fiscal months ended</u>	
	<u>October 2, 2021</u>	<u>October 3, 2020</u>	<u>October 2, 2021</u>	<u>October 3, 2020</u>
Reconciliation:				
Segment Operating Income	\$192,616	\$120,854	\$ 556,460	\$ 336,312
Restructuring and Severance Costs	-	-	-	(743)
Impact of the COVID-19 Pandemic on Selling, General, and Administrative Expenses	-	441	-	871
Unallocated Selling, General, and Administrative Expenses	(69,095)	(59,805)	(210,303)	(186,742)
Consolidated Operating Income	\$123,521	\$ 61,490	\$ 346,157	\$ 149,698
Unallocated Other Income (Expense)	(7,106)	(15,766)	(25,405)	(38,100)
Consolidated Income Before Taxes	\$116,415	\$ 45,724	\$ 320,752	\$ 111,598

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The Company has a broad line of products that it sells to OEMs, EMS companies, and independent distributors. The distribution of sales by customer type is shown below:

	Fiscal quarters ended		Nine fiscal months ended	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Distributors	\$ 483,766	\$ 325,695	\$ 1,400,700	\$ 980,703
OEMs	278,358	273,664	850,413	725,592
EMS companies	51,539	40,801	146,302	128,423
Total Revenue	<u>\$ 813,663</u>	<u>\$ 640,160</u>	<u>\$ 2,397,415</u>	<u>\$ 1,834,718</u>

Net revenues were attributable to customers in the following regions:

	Fiscal quarters ended		Nine fiscal months ended	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Asia	\$ 365,133	\$ 270,451	\$ 1,034,936	\$ 748,160
Europe	263,650	213,296	800,801	626,276
Americas	184,880	156,413	561,678	460,282
Total Revenue	<u>\$ 813,663</u>	<u>\$ 640,160</u>	<u>\$ 2,397,415</u>	<u>\$ 1,834,718</u>

The Company generates substantially all of its revenue from product sales to end customers in the industrial, automotive, telecommunications, computing, consumer products, power supplies, military and aerospace, and medical end markets. Sales by end market are presented below:

	Fiscal quarters ended		Nine fiscal months ended	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Industrial	\$ 335,047	\$ 209,473	\$ 927,981	\$ 651,461
Automotive	240,764	216,641	743,766	552,418
Telecommunications	24,580	27,845	72,438	91,033
Computing	58,703	51,032	183,234	151,974
Consumer Products	43,839	33,353	128,243	76,477
Power Supplies	42,082	29,112	119,373	86,482
Military and Aerospace	40,198	40,582	124,909	125,968
Medical	28,450	32,122	97,471	98,905
Total revenue	<u>\$ 813,663</u>	<u>\$ 640,160</u>	<u>\$ 2,397,415</u>	<u>\$ 1,834,718</u>

Note 11 – 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		Nine fiscal months ended	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Numerator:				
Net earnings attributable to Vishay stockholders	\$ 96,820	\$ 33,484	\$ 261,447	\$ 85,356
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	144,808	144,658	144,792	144,636
Outstanding phantom stock units	209	196	208	195
Adjusted weighted average shares	<u>145,017</u>	<u>144,854</u>	<u>145,000</u>	<u>144,831</u>
Effect of dilutive securities:				
Convertible debt instruments	-	5	3	35
Restricted stock units	441	338	452	355
Dilutive potential common shares	<u>441</u>	<u>343</u>	<u>455</u>	<u>390</u>
Denominator for diluted earnings per share:				
Adjusted weighted average shares - diluted	<u>145,458</u>	<u>145,197</u>	<u>145,455</u>	<u>145,221</u>
Basic earnings per share attributable to Vishay stockholders	\$ 0.67	\$ 0.23	\$ 1.80	\$ 0.59
Diluted earnings per share attributable to Vishay stockholders	\$ 0.67	\$ 0.23	\$ 1.80	\$ 0.59

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 ended		Nine fiscal months ended	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Convertible debt instruments:				
Convertible Senior Notes, due 2025	-	16,009	-	17,806
Convertible Senior Debentures, due 2041	-	156	-	133
Weighted average other	317	325	317	346

If the average market price of Vishay common stock is less than the effective conversion price of the convertible senior notes due 2025, no shares are included in the diluted earnings per share computation for the convertible senior notes due 2025. Upon Vishay exercising its existing right to legally amend the indenture governing the convertible senior notes due 2025, Vishay will satisfy its conversion obligations by paying \$1 cash per \$1 principal amount of converted notes and settle any additional amounts due in common stock. Accordingly, the notes are not anti-dilutive when the average market price of Vishay common stock is less than the effective conversion price of the convertible senior notes due 2025.

Note 12 – 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
October 2, 2021				
<u>Assets:</u>				
Assets held in rabbi trusts	\$ 58,169	\$ 32,436	\$ 25,733	\$ -
Available for sale securities	\$ 4,669	4,669	-	-
	\$ 62,838	\$ 37,105	\$ 25,733	\$ -
December 31, 2020				
<u>Assets:</u>				
Assets held in rabbi trusts	\$ 57,892	\$ 34,145	23,747	\$ -
Available for sale securities	\$ 4,917	4,917	-	-
	\$ 62,809	\$ 39,062	\$ 23,747	\$ -

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.

The Company holds 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 period. The fair value measurement of the investments is considered a Level 1 measurement within the fair value hierarchy.

The Company enters into forward contracts with highly-rated financial institutions to mitigate the foreign currency risk associated with intercompany loans denominated in a currency other than the legal entity's functional currency. The notional amount of the forward contracts was \$100,000 as of October 2, 2021 and December 31, 2020. The forward contracts are short-term in nature and are expected to be renewed at the Company's discretion until the intercompany loans are repaid. We have not designated the forward contracts as hedges for accounting purposes, and as such the change in the fair value of the contracts is recognized in the consolidated condensed statements of operations as a component of other income (expense). The Company estimates the fair value of the forward contracts based on applicable and commonly used pricing models using current market information and is considered a Level 2 measurement within the fair value hierarchy. The value of the forward contracts was immaterial as of October 2, 2021 and December 31, 2020. The Company does not utilize derivatives or other financial instruments for trading or other speculative purposes.

The fair value of the long-term debt, excluding the derivative liabilities and deferred financing costs, at October 2, 2021 and December 31, 2020 is approximately \$486,800 and \$491,400, respectively, compared to its carrying value, excluding the deferred financing costs, of \$465,344 and \$406,398, 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 October 2, 2021 and December 31, 2020, 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 Company's 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 October 2, 2021 and December 31, 2020, 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 held-to-maturity short-term investments approximate the carrying amounts reported in the consolidated condensed balance sheets.

The Company's financial instruments also include accounts receivable 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

This Management's Discussion and Analysis ("MD&A") is intended to provide an understanding of Vishay's financial condition, results of operations and cash flows by focusing on changes in certain key measures from period to period. The MD&A should be read in conjunction with our Consolidated Condensed Financial Statements and accompanying Notes included in Item 1. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in our Annual Report on Form 10-K, particularly in Item 1A. "Risk Factors," filed with the Securities and Exchange Commission on February 24, 2021.

Overview

Vishay Intertechnology, Inc. ("Vishay," "we," "us," or "our") manufactures one of the world's largest portfolios of discrete semiconductors and passive electronic components that are essential to innovative designs in the automotive, industrial, computing, consumer, telecommunications, military, aerospace, and medical markets.

We operate in six segments based on product functionality: MOSFETs, Diodes, Optoelectronic Components, Resistors, Inductors, and Capacitors.

We are focused on enhancing stockholder value by growing our business and improving earnings per share. Since 1985, we have pursued a business strategy of growth through focused research and development and acquisitions. We plan to continue to grow our business through intensified internal growth supplemented by opportunistic acquisitions, while at the same time maintaining a prudent capital structure. To foster intensified internal growth, we have increased our worldwide R&D and engineering technical staff; we are expanding critical manufacturing capacities; we are increasing our technical field sales force in Asia to increase our market access to the industrial segment and increase the design-in of our products in local markets; and we are directing increased funding and focus on developing products to capitalize on the connectivity, mobility, and sustainability growth drivers of our business. In addition to our growth plan, we also have opportunistically repurchased our stock and, as further described below, reduced dilution risks by repurchasing all of our convertible senior debentures. Over the next few years, we expect to experience higher growth rates than over the last decade. This expectation is based upon accelerated electrification, such as factory automation, electrical vehicles, and 5G infrastructure.

In 2014, our Board of Directors instituted a quarterly dividend payment program and declared the first cash dividend in the history of Vishay. We have paid dividends each quarter since the first fiscal quarter of 2014, and currently pay quarterly cash dividends of \$0.095 per share. We expect to continue to pay quarterly dividends, although each dividend is subject to approval by our Board of Directors.

On May 20, 2020, our Board of Directors authorized a program to repurchase up to \$200 million of the outstanding convertible senior notes due 2025 in open market repurchases or through privately negotiated transactions. Such transactions provide us more flexibility to adjust our debt levels if necessary. We have repurchased \$134.7 million principal amount of convertible senior notes pursuant to this program. On February 4, 2021, we redeemed the remaining convertible senior debentures.

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. The worldwide economy and, specifically, our business were impacted by the outbreak of the coronavirus ("COVID-19"), particularly in 2020. The pandemic significantly impacted the global market, including our customers, suppliers, and shipping partners, which impacted our net revenues. In 2020, we also incurred incremental costs separable from normal operations that are directly attributable to the pandemic and containment efforts, primarily salaries and wages for employees impacted by quarantines and additional safety measures, including masks and temperature scanners, which were partially offset by government subsidies. Directly attributable costs of the pandemic are no longer incremental and have become part of normal operations. Accordingly, in 2021, they are considered in our normal operating costs. We excluded indirect financial changes such as general macroeconomic effects and higher shipping costs due to reduced shipping capacity from the COVID-19 amounts reported.

While the COVID-19 pandemic continues to have a global impact, the economic impact of the COVID-19 pandemic on Vishay was temporary as evidenced by our revenues through the first nine fiscal months of 2021. In this volatile economic environment, we continue to closely monitor our fixed costs, capital expenditure plans, 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. We will react quickly and professionally to changes in demand to minimize manufacturing inefficiencies and excess inventory build in periods of decline and maximize opportunities in periods of growth. We have significant liquidity to withstand temporary disruptions in the economic environment. The global cost reduction and management rejuvenation programs that we began as part of our continuous efforts to improve efficiency and operating performance in 2019 have been fully implemented.

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" below. The COVID-19 pandemic impacted

almost all key financial metrics in 2020. We experienced a broad recovery in orders and sales beginning in the third fiscal quarter of 2020 that continued in the third fiscal quarter of 2021. We continue to increase manufacturing capacities and have broadly implemented strategic price increases, but experienced shortages of labor and cost increases in the third fiscal quarter of 2021. Order levels continue to be high and backlogs have increased, but at a slower rate than the prior fiscal quarter. The key financial metrics remain very strong, but were slightly negatively impacted by these combined factors.

Net revenues for the fiscal quarter ended October 2, 2021 were \$813.7 million, compared to \$819.1 million and \$640.2 million for the fiscal quarters ended July 3, 2021 and October 3, 2020, respectively. The net earnings attributable to Vishay stockholders for the fiscal quarter ended October 2, 2021 were \$96.8 million, or \$0.67 per diluted share, compared to \$93.2 million, or \$0.64 per diluted share for the fiscal quarter ended July 3, 2021, and \$33.5 million, or \$0.23 per diluted share for the fiscal quarter ended October 3, 2020.

Net revenues for the nine fiscal months ended October 2, 2021 were \$2,397.4 million, compared to \$1,834.7 million for the nine fiscal months ended October 3, 2020. The net earnings attributable to Vishay stockholders for the nine fiscal months ended October 2, 2021 were \$261.4 million, or \$1.80 per diluted share, compared to \$85.4 million, or \$0.59 per diluted share for the nine fiscal months ended October 3, 2020.

We define adjusted net earnings as net earnings determined in accordance with GAAP adjusted for various items that management believes are not indicative of the intrinsic operating performance of our business. We define free cash as the cash flows generated from continuing operations less capital expenditures plus net proceeds from the sale of property and equipment. The reconciliations below include certain financial measures which are not recognized in accordance with GAAP, including adjusted net earnings, adjusted earnings per share, and free cash. These non-GAAP measures should not be viewed as alternatives to GAAP measures of performance or liquidity. Non-GAAP measures such as adjusted net earnings, adjusted earnings per share, and free cash 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 adjusted net earnings and adjusted earnings per share are meaningful because they provide insight with respect to our intrinsic operating results. 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.

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

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
GAAP net earnings attributable to Vishay stockholders	\$ 96,820	\$ 93,192	\$ 33,484	\$ 261,447	\$ 85,356
<u>Reconciling items affecting gross income:</u>					
Impact of COVID-19 pandemic	-	-	242	-	4,295
<u>Other reconciling items affecting operating income:</u>					
Restructuring and severance costs	-	-	-	-	743
Impact of COVID-19 pandemic	-	-	(441)	-	(871)
<u>Reconciling items affecting other income (expense):</u>					
Loss on early extinguishment of debt	-	-	3,454	-	7,520
<u>Reconciling items affecting tax expense:</u>					
Changes in tax regulation	\$ -	\$ (3,881)	\$ -	\$ (8,276)	\$ -
Effects of changes in valuation allowances	(5,714)	-	-	(5,714)	-
Effects of cash repatriation program	-	-	-	-	(190)
Change in deferred taxes due to early extinguishment of debt	-	-	-	-	(1,346)
Tax effects of pre-tax items above	-	-	(716)	-	(2,787)
Adjusted net earnings	<u>\$ 91,106</u>	<u>\$ 89,311</u>	<u>\$ 36,023</u>	<u>\$ 247,457</u>	<u>\$ 92,720</u>
Adjusted weighted average diluted shares outstanding	145,458	145,445	145,197	145,455	145,221
Adjusted earnings per diluted share	\$ 0.63	\$ 0.61	\$ 0.25	\$ 1.70	\$ 0.64

Although the term "free cash" is not defined in GAAP, each of the elements used to calculate free cash for the year-to-date period is presented as a line item on the face of our consolidated condensed statement of cash flows prepared in accordance with GAAP and the quarterly amounts are derived from the year-to-date GAAP statements as of the beginning and end of the respective quarter.

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Net cash provided by continuing operating activities	\$ 135,669	\$ 117,461	\$ 64,330	\$ 310,452	\$ 189,239
Proceeds from sale of property and equipment	1,023	34	63	1,257	293
Less: Capital expenditures	(57,446)	(32,183)	(21,969)	(118,156)	(70,801)
Free cash	<u>\$ 79,246</u>	<u>\$ 85,312</u>	<u>\$ 42,424</u>	<u>\$ 193,553</u>	<u>\$ 118,731</u>

Our results for the fiscal quarters ended October 2, 2021, July 3, 2021, and October 3, 2020 represent the sharp and broad recovery that we began to experience in the third fiscal quarter of 2020 that has continued through the third fiscal quarter of 2021. Our percentage of euro-based sales approximates our percentage of euro-based expenses so the foreign currency impact on revenues was substantially offset by the impact on expenses. Our pre-tax results were consistent with expectations based on our business model.

Our free cash results were significantly impacted by the installment payments of the U.S. transition tax of \$14.8 million in the second fiscal quarter of 2021 and the third fiscal quarter of 2020 and the payment of cash taxes related to the cash repatriated to the U.S. in the second fiscal quarter of 2020 of \$16.3 million pursuant to the cash repatriation program that we initiated in 2017 in response to the U.S. Tax Cuts and Jobs Act ("TCJA") enacted in the United States.

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 our or publicly available 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. Using our and publicly available data, we analyze trends and changes in average selling prices to evaluate likely future pricing. We attempt to offset deterioration in the average selling prices of established products with ongoing cost reduction activities and new product introductions. Our specialty passive components are more resistant to average selling price erosion. All pricing is subject to governing market conditions and is independently set by us.

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 third fiscal quarter of 2020 through the third fiscal quarter of 2021 (*dollars in thousands*):

	3rd Quarter 2020	4th Quarter 2020	1st Quarter 2021	2nd Quarter 2021	3rd Quarter 2021
Net revenues	\$ 640,160	\$ 667,180	\$ 764,632	\$ 819,120	\$ 813,663
Gross profit margin ⁽¹⁾	23.7%	22.8%	26.5%	28.0%	27.7%
Operating margin ⁽²⁾	9.6%	9.0%	12.7%	15.3%	15.2%
End-of-period backlog	\$ 927,900	\$ 1,239,800	\$ 1,731,200	\$ 2,050,200	\$ 2,243,900
Book-to-bill ratio	0.99	1.44	1.67	1.38	1.26
Inventory turnover	4.4	4.6	4.8	4.8	4.5
Change in ASP vs. prior quarter	(1.1)%	(0.3)%	(0.5)%	1.0%	1.3%

(1) Gross margin for the third and fourth fiscal quarters of 2020 includes \$0.2 million and \$0.3 million, respectively, of expenses directly related to the COVID-19 pandemic.

(2) Operating margin for the third and fourth fiscal quarters of 2020 includes in total \$(0.2) million and \$(0.3) million, respectively, of expenses (benefits) directly related to the COVID-19 pandemic.

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

Revenues increased significantly versus the third fiscal quarter of 2020, primarily due to higher volume. Revenues decreased slightly versus the prior fiscal quarter. We continue to experience robust demand for our products, with the backlog continuing to grow. Sales at this time continue to be limited by our capacity. Pressure on average selling prices continues to be very low and we are implementing strategic price increases across the product portfolio to offset increased materials and transportation costs.

Gross profit margin decreased versus the prior fiscal quarter primarily due to higher metals and materials costs. Gross profit margin increased versus the third fiscal quarter of 2020 primarily due to increased volume and manufacturing efficiencies.

The book-to-bill ratio in the third fiscal quarter of 2021 remained strong, but decreased to 1.26 versus 1.38 in the second fiscal quarter of 2021. The book-to-bill ratios in the third fiscal quarter of 2021 for distributors and original equipment manufacturers (“OEM”) were 1.29 and 1.23, respectively, versus ratios of 1.41 and 1.34, respectively, during the second fiscal quarter of 2021.

For the fourth fiscal quarter of 2021, we anticipate revenues between \$805 million and \$845 million at a gross margin of 27.7% plus/minus 50 basis points at the exchange rates of Q3 2021.

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 third fiscal quarter of 2020 through the third fiscal quarter of 2021 (*dollars in thousands*):

	3rd Quarter 2020	4th Quarter 2020	1st Quarter 2021	2nd Quarter 2021	3rd Quarter 2021
<u>MOSFETs</u>					
Net revenues	\$ 133,976	\$ 131,567	\$ 153,223	\$ 167,937	\$ 175,499
Book-to-bill ratio	0.93	1.64	1.97	1.26	1.19
Gross profit margin	22.1%	22.4%	24.2%	28.2%	30.7%
Segment operating margin	15.0%	15.3%	17.8%	22.3%	24.9%
<u>Diodes</u>					
Net revenues	\$ 123,744	\$ 139,274	\$ 157,178	\$ 174,815	\$ 185,306
Book-to-bill ratio	1.05	1.65	1.85	1.45	1.31
Gross profit margin	16.8%	17.8%	21.9%	23.9%	25.2%
Segment operating margin	12.8%	14.1%	18.3%	20.7%	22.3%
<u>Optoelectronic Components</u>					
Net revenues	\$ 64,955	\$ 68,352	\$ 77,771	\$ 75,795	\$ 70,750
Book-to-bill ratio	0.97	1.46	1.66	1.69	1.36
Gross profit margin	32.8%	27.7%	33.0%	32.4%	33.7%
Segment operating margin	26.5%	21.3%	27.3%	26.6%	27.9%
<u>Resistors</u>					
Net revenues	\$ 145,362	\$ 161,201	\$ 186,602	\$ 194,722	\$ 181,189
Book-to-bill ratio	1.06	1.24	1.50	1.39	1.26
Gross profit margin	24.2%	25.3%	28.9%	29.7%	27.4%
Segment operating margin	20.7%	21.0%	25.4%	26.4%	24.0%
<u>Inductors</u>					
Net revenues	\$ 79,399	\$ 75,260	\$ 83,458	\$ 85,539	\$ 84,816
Book-to-bill ratio	0.96	1.03	1.13	1.21	1.11
Gross profit margin	33.5%	30.1%	33.3%	33.5%	31.7%
Segment operating margin	30.4%	27.0%	30.3%	30.7%	28.7%
<u>Capacitors</u>					
Net revenues	\$ 92,724	\$ 91,526	\$ 106,400	\$ 120,312	\$ 116,103
Book-to-bill ratio	0.95	1.54	1.73	1.37	1.37
Gross profit margin	19.8%	17.5%	22.6%	24.1%	21.3%
Segment operating margin	14.8%	12.5%	17.7%	19.7%	17.2%

Cost Management

We place a strong emphasis on controlling our costs, and use various measures and metrics to evaluate our cost structure.

We define variable costs as expenses that vary with respect to quantity produced. Fixed costs do not vary with respect to quantity produced over the relevant time period. Contributive margin is calculated as net revenue less variable costs. It may be expressed in dollars or as a percentage of net revenue. Management uses this measure to determine the amount of profit to be expected for any change in revenues. While these measures are typical cost accounting measures, none of these measures are recognized in accordance with GAAP. The classification of expenses as either variable or fixed is judgmental and other companies might classify such expenses differently. These measures, as calculated by Vishay, may not be comparable to similarly titled measures used by other companies.

We closely monitor variable costs and seek to achieve the contributive margin in our business model. Over a period of many years, we have generally maintained a contributive margin of between 45% - 47% of revenues. The erosion of average selling prices, particularly of our semiconductor products, that is typical of our industry and inflation negatively impact contributive margin and drive us to continually seek ways to reduce our variable costs. Our variable cost reduction efforts include increasing the efficiency in our production facilities by expending capital for automation, reducing materials costs, materials substitution, 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 recorded as costs of products sold or selling, general, and administrative expenses and maintaining our break-even point (adjusted for acquisitions). We seek to limit increases in selling, general, and administrative expenses to the rate of inflation, excluding foreign currency exchange effects and substantially independent of sales volume changes. At constant fixed costs, we would expect each \$1 million increase in revenues to increase our operating income by approximately \$450,000 to \$470,000. Sudden changes in the business conditions, however, may not allow us to quickly adapt our manufacturing capacity and cost structure.

Occasionally, our ongoing cost containment activities are not adequate and we must take actions to maintain our cost competitiveness. We incurred significant restructuring expenses in our past to reduce our cost structure. Historically, our primary cost reduction technique was through the transfer of production to the extent possible from high-labor-cost countries to lower-labor-cost countries. We believe that our manufacturing footprint is suitable to serve our customers and end markets, while maintaining lower manufacturing costs. Since 2013, our cost reduction programs have primarily focused on reducing fixed costs, including selling, general, and administrative expenses.

We continue to monitor the economic environment and its potential effects on our customers and the end markets that we serve.

We do not anticipate any material restructuring activities in 2021. However, a worsening business environment for the electronics industry, a prolonged impact of the COVID-19 pandemic, or a significant economic downturn may require us to implement additional restructuring initiatives.

In uncertain times, we focus on managing our production capacities in accordance with customer requirements, and maintain discipline in terms of our fixed costs and capital expenditures. Even as we seek to manage our costs, we remain cognizant of the future requirements of our demanding markets. 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.

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 any of the businesses acquired since 2011, but we expect to have some level of future restructuring expenses due to acquisitions.

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. We occasionally use forward exchange contracts to economically hedge a portion of these exposures.

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 third fiscal quarter and first nine fiscal months of 2021 compared to the prior year periods, with the translation of foreign currency revenues and expenses into U.S. dollars increasing reported revenues and expenses versus the prior year periods. The dollar was stronger during the third fiscal quarter of 2021 compared to the prior fiscal quarter, with the translation of foreign currency revenues and expenses into U.S. dollars slightly decreasing reported revenues and expenses versus the prior fiscal quarter.

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 for the third fiscal quarter and first nine fiscal months of 2021 have been unfavorably impacted compared to the prior fiscal quarter and 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			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Cost of products sold	72.3%	72.0%	76.3%	72.6%	76.6%
Gross profit	27.7%	28.0%	23.7%	27.4%	23.4%
Selling, general & administrative expenses	12.6%	12.7%	14.1%	13.0%	15.2%
Operating income	15.2%	15.3%	9.6%	14.4%	8.2%
Income before taxes and noncontrolling interest	14.3%	14.3%	7.1%	13.4%	6.1%
Net earnings attributable to Vishay stockholders	11.9%	11.4%	5.2%	10.9%	4.7%
Effective tax rate	16.6%	20.3%	26.4%	18.3%	23.0%

Net Revenues

Net revenues were as follows (*dollars in thousands*):

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Net revenues	\$ 813,663	\$ 819,120	\$ 640,160	\$ 2,397,415	\$ 1,834,718

The change in net revenues versus the comparable prior periods was as follows (*dollars in thousands*):

	Fiscal quarter ended October 2, 2021		Nine fiscal months ended October 2, 2021	
	Change in net revenues	% change	Change in net revenues	% change
July 3, 2021	\$ (5,457)	-0.7%		
October 3, 2020	\$ 173,503	27.1%	\$ 562,697	30.7%

Changes in net revenues were attributable to the following:

	vs. Prior Quarter	vs. Prior Year Quarter	vs. Prior Year-to- Date
Change attributable to:			
Change in volume	-1.3%	22.2%	26.3%
Increase in average selling prices	1.3%	2.2%	0.2%
Foreign currency effects	-0.7%	0.3%	2.4%
Acquisition	0.0%	1.0%	1.0%
Other	0.0%	1.4%	0.8%
Net change	<u>-0.7%</u>	<u>27.1%</u>	<u>30.7%</u>

Net revenues for the fiscal quarter and nine fiscal months ended October 3, 2020 were negatively impacted by a significant decrease in demand due to the COVID-19 pandemic that began to broadly recover in the third fiscal quarter of 2020 and has continued through the third fiscal quarter of 2021. The increasing demand and manufacturing capacities resulted in increased net revenues compared to the prior year periods. Net revenues decreased slightly versus the prior fiscal quarter.

Gross Profit and Margins

Gross profit margins for the fiscal quarter ended October 2, 2021 were 27.7%, versus 28.0% and 23.7%, for the comparable prior quarter and prior year period, respectively. Gross profit margins for the nine fiscal months ended October 2, 2021 were 27.4%, versus 23.4% for the comparable prior year period. The increases versus the prior year periods are primarily due to increased volume. The decrease versus the prior fiscal quarter is due to decreased volume and inflationary impacts, particularly increased metals and transportation costs, which negatively impacted the contributive margin.

Segments

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

MOSFETs

Net revenues and gross profit margin of the MOSFETs segment were as follows (*dollars in thousands*):

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Net revenues	\$ 175,499	\$ 167,937	\$ 133,976	\$ 496,659	\$ 369,813
Gross profit margin	30.7%	28.2%	22.1%	27.9%	22.9%

The change in net revenues versus the comparable prior periods was as follows (*dollars in thousands*):

	Fiscal quarter ended October 2, 2021		Nine fiscal months ended October 2, 2021	
	Change in net revenues	% change	Change in net revenues	% change
	July 3, 2021	\$ 7,562	4.5%	
	October 3, 2020	\$ 41,523	31.0%	\$ 126,846
				34.3%

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

	vs. Prior Quarter	vs. Prior Year Quarter	vs. Prior Year-to- Date
Change attributable to:			
Increase in volume	3.3%	27.4%	35.5%
Change in average selling prices	1.5%	2.2%	-1.5%
Foreign currency effects	-0.4%	0.1%	1.2%
Other	0.1%	1.3%	-0.9%
Net change	4.5%	31.0%	34.3%

The MOSFET segment net revenues increased versus the prior fiscal quarter and the prior year periods. Net revenues increased for customers in all regions. The increase versus the prior fiscal quarter is primarily due to increased sales to distribution customers, particularly in the Americas and Europe regions, partially offset by decreased sales to OEM and EMS customers, particularly in the Americas and Europe regions. All end markets and all customer channels contributed to the increases versus the prior year periods.

Gross profit margin increased versus the prior fiscal quarter and the prior year periods. The increases are primarily due to the higher sales volume. An increase in average selling prices and cost reduction measures contributed to the increase versus the prior fiscal quarter. An increase in average selling prices and cost reduction measures, which are partially offset by cost inflation and negative foreign currency impacts, contributed to the increase versus the prior year quarter. The increase versus the prior year-to-date period is also due to higher sales volume and cost reduction measures, partially offset by lower average selling prices, cost inflation, and negative foreign currency impact.

Average selling prices increased versus the prior fiscal quarter and the prior year quarter, but decreased slightly versus the prior year-to-date period.

We continue to invest to expand mid- and long-term manufacturing capacity for strategic product lines. We are building a 12-inch wafer fab in Itzehoe, Germany adjacent to our existing 8-inch wafer fab, which we expect will increase our in-house wafer capacity by approximately 70% within 3-4 years and allow us to balance our in-house and foundry wafer supply.

Diodes

Net revenues and gross profit margin of the Diodes segment were as follows (*dollars in thousands*):

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Net revenues	\$ 185,306	\$ 174,815	\$ 123,744	\$ 517,299	\$ 363,274
Gross profit margin	25.2%	23.9%	16.8%	23.8%	18.0%

The change in net revenues versus the comparable prior periods was as follows (*dollars in thousands*):

	Fiscal quarter ended October 2, 2021		Nine fiscal months ended October 2, 2021	
	Change in net revenues	% change	Change in net revenues	% change
	July 3, 2021	\$ 10,491	6.0%	
	October 3, 2020	\$ 61,562	49.7%	\$ 154,025
				42.4%

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

	vs. Prior Quarter	vs. Prior Year Quarter	vs. Prior Year-to- Date
Change attributable to:			
Increase in volume	3.5%	39.0%	36.2%
Increase in average selling prices	2.9%	5.1%	1.6%
Foreign currency effects	-0.6%	0.2%	2.2%
Other	0.2%	5.4%	2.4%
Net change	6.0%	49.7%	42.4%

Net revenues of the Diodes segment increased versus the prior fiscal quarter and prior year periods. The increase versus the prior fiscal quarter is primarily due to increased sales to distributor customers, partially offset by decreased sales to automotive end market customers in Europe. All end markets and all customer channels, particularly distributor customers, contributed to the increases versus the prior year periods.

Gross profit margin increased versus the prior fiscal quarter and the prior year periods. The increase versus the prior fiscal quarter is primarily due to increased sales volume and higher average selling prices, partially offset by higher materials costs. The increases versus the prior year periods are primarily due to increased sales volume, increased average selling prices, cost reduction measures, and the positive impact of an inventory increase, partially offset by cost inflation and higher U.S. tariffs due to increased imports from China.

We are implementing strategic price increases across the product portfolio. Average selling prices increased versus the prior fiscal quarter and prior year periods.

Optoelectronic Components

Net revenues and gross profit margin of the Optoelectronic Components segment were as follows (*dollars in thousands*):

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Net revenues	\$ 70,750	\$ 75,795	\$ 64,955	\$ 224,316	\$ 168,264
Gross profit margin	33.7%	32.4%	32.8%	33.0%	28.3%

The change in net revenues versus the comparable prior periods was as follows (*dollars in thousands*):

	Fiscal quarter ended October 2, 2021		Nine fiscal months ended October 2, 2021	
	Change in net revenues	% change	Change in net revenues	% change
July 3, 2021	\$ (5,045)	(6.7)%		
October 3, 2020	\$ 5,795	8.9%	\$ 56,052	33.3%

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

	vs. Prior Quarter	vs. Prior Year Quarter	vs. Prior Year-to- Date
Change attributable to:			
Change in volume	-7.9%	3.2%	26.7%
Increase in average selling prices	1.9%	5.0%	2.0%
Foreign currency effects	-0.7%	0.3%	3.1%
Other	0.0%	0.4%	1.5%
Net change	<u>-6.7%</u>	<u>8.9%</u>	<u>33.3%</u>

Net revenues of our Optoelectronic Components segment decreased versus the prior fiscal quarter, but increased versus the prior year periods. The decrease versus the prior fiscal quarter is primarily due to COVID-19-related restrictions on our manufacturing facility in Malaysia. The Malaysia facility resumed full operations in mid-September 2021. The increase versus the prior year quarter is primarily due to increased sales to distributor customers, partially offset by decreased sales to OEM and EMS customers. All end markets and all customer channels, particularly distributors, contributed to the increase versus the prior year-to-date period.

Gross profit margin increased versus the prior fiscal quarter and the prior year periods. The increase versus the prior fiscal quarter is primarily due to higher average selling prices and the positive impact of inventory increases, partially offset by lower sales volume. The increases versus the prior year periods are primarily due to increased sales volume, higher average selling prices, and cost reduction measures, partially offset by cost inflation.

We are implementing strategic price increases across the product portfolio. Average selling prices increased versus the prior fiscal quarter and prior year periods.

We have modernized and expanded our Heilbronn wafer fab and plan to start production in the fourth fiscal quarter.

Resistors

Net revenues and gross profit margins of the Resistors segment were as follows (*dollars in thousands*):

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Net revenues	\$ 181,189	\$ 194,722	\$ 145,362	\$ 562,513	\$ 444,982
Gross profit margin	27.4%	29.7%	24.2%	28.7%	25.3%

The change in net revenues versus the comparable prior periods was as follows (*dollars in thousands*):

	Fiscal quarter ended October 2, 2021		Nine fiscal months ended October 2, 2021	
	Change in net revenues	% change	Change in net revenues	% change
July 3, 2021	\$ (13,533)	(6.9)%		
October 3, 2020	\$ 35,827	24.6%	\$ 117,531	26.4%

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

	vs. Prior Quarter	vs. Prior Year Quarter	vs. Prior Year-to- Date
Change attributable to:			
Change in volume	-6.4%	18.5%	18.0%
Change in average selling prices	0.5%	0.7%	0.0%
Foreign currency effects	-0.9%	0.4%	3.5%
Acquisition	0.0%	4.5%	4.1%
Other	-0.1%	0.5%	0.8%
Net change	<u>-6.9%</u>	<u>24.6%</u>	<u>26.4%</u>

Net revenues of the Resistors segment decreased versus the prior fiscal quarter, but increased versus the prior year periods. Revenues in the third fiscal quarter of 2021 were limited by labor shortages. The decrease versus the prior fiscal quarter is primarily due to decreased sales to distributor customers and end market customers in all regions. The increases versus the prior year periods are primarily due to increased sales to distributor customers and automotive and industrial end market customers in all regions.

The gross profit margin decreased versus the prior fiscal quarter, but increased versus the prior year periods. The decrease versus the prior fiscal quarter is primarily due to lower sales volume and higher metals, materials, and logistics costs, partially offset by increased average selling prices and lower fixed costs. The increases versus the prior year periods are due to the significant increase in sales volume, greater efficiencies, and positive exchange rate impact, partially offset by higher metals, materials, and logistics costs.

Average selling prices increased versus the prior fiscal quarter and prior year quarter and were flat versus the prior year-to-date period.

We are increasing critical manufacturing capacities for certain product lines.

Inductors

Net revenues and gross profit margins of the Inductors segment were as follows (*dollars in thousands*):

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Net revenues	\$ 84,816	\$ 85,539	\$ 79,399	\$ 253,813	\$ 218,369
Gross profit margin	31.7%	33.5%	33.5%	32.8%	32.0%

The change in net revenues versus the comparable prior periods was as follows (*dollars in thousands*):

	Fiscal quarters ended October 2, 2021		Nine fiscal months ended October 2, 2021	
	Change in net revenues	% change	Change in net revenues	% change
July 3, 2021	\$ (723)	-0.8%		
October 3, 2020	\$ 5,417	6.8%	\$ 35,444	16.2%

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

	vs. Prior Quarter	vs. Prior Year Quarter	vs. Prior Year-to- Date
Change attributable to:			
Change in volume	-0.7%	7.9%	17.7%
Change in average selling prices	0.2%	-1.0%	-1.9%
Foreign currency effects	-0.4%	0.1%	1.0%
Other	0.1%	-0.2%	-0.6%
Net change	<u>-0.8%</u>	<u>6.8%</u>	<u>16.2%</u>

Net revenues of the Inductors segment decreased versus the prior fiscal quarter, but increased versus the prior year periods. The decrease versus the prior fiscal quarter is primarily due to decreased sales to automotive and medical end market customers and customers in the Americas and Europe regions. The increases versus the prior year periods are primarily due to increased sales to distributor customers and medical end market customers in the Asia and Americas regions. Automotive and industrial end market customers and customers in the Europe region also contributed to the increased net revenues versus the prior year-to-date period.

The gross profit margin decreased versus the prior fiscal quarter and the prior year quarter, but increased versus the prior year-to-date period. The decrease versus the prior fiscal quarter is primarily due to lower sales volume and manufacturing inefficiencies, partially offset by increased average selling prices. The decrease versus the prior year quarter is primarily due to lower average selling prices and higher metals, labor, and logistics costs, partially offset by increased volume. The increase versus the prior year-to-date period is primarily due to increased volume, improved efficiencies, and cost reductions, partially offset by lower average selling prices and higher metals, labor, and logistics costs.

Average selling prices increased versus the prior fiscal quarter, but decreased slightly versus the prior year periods.

We expect long-term growth in this segment, and are accelerating capacity expansion to capitalize on future market upturns.

Capacitors

Net revenues and gross profit margin of the Capacitors segment were as follows (*dollars in thousands*):

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Net revenues	\$ 116,103	\$ 120,312	\$ 92,724	\$ 342,815	\$ 270,016
Gross profit margin	21.3%	24.1%	19.8%	22.7%	20.0%

The change in net revenues versus the comparable prior periods was as follows (*dollars in thousands*):

	Fiscal quarter ended October 2, 2021		Nine fiscal months ended October 2, 2021	
	Change in net revenues	% change	Change in net revenues	% change
July 3, 2021	\$ (4,209)	(3.5)%		
October 3, 2020	\$ 23,379	25.2%	\$ 72,799	27.0%

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

	vs. Prior Quarter	vs. Prior Year Quarter	vs. Prior Year-to- Date
Change attributable to:			
Change in volume	-2.7%	22.6%	20.7%
Increase in average selling prices	0.1%	1.3%	1.3%
Foreign currency effects	-1.0%	0.5%	3.5%
Other	0.1%	0.8%	1.5%
Net change	<u>-3.5%</u>	<u>25.2%</u>	<u>27.0%</u>

Net revenues of the Capacitors segment decreased versus the prior fiscal quarter, but increased versus the prior year periods. Revenues in the third fiscal quarter of 2021 were limited by labor shortages. The decrease versus the prior fiscal quarter is primarily due to decreased sales to distributor customers in the Asia and Americas regions. The increases versus the prior year periods are primarily due to increased sales to distributor customers and the industrial end markets in all regions.

The gross profit margin decreased versus the prior fiscal quarter, but increased versus the prior year periods. The decrease versus the prior fiscal quarter is primarily due to significantly higher metals, materials, and shipping costs, manufacturing inefficiencies, and lower sales volume. The increases versus the prior year periods are primarily due to higher sales volume, manufacturing efficiencies, and increased average selling prices, partially offset by the negative impact of product mix and increased metals costs.

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

Selling, General, and Administrative Expenses

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

	Fiscal quarters ended			Nine fiscal months ended	
	October 2, 2021	July 3, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Total SG&A expenses	\$ 102,215	\$ 103,900	\$ 90,219	\$ 311,800	\$ 279,178
as a percentage of revenues	12.6%	12.7%	14.1%	13.0%	15.2%

The sequential decrease in SG&A expenses is primarily due to foreign currency exchange rate effects. SG&A expenses increased versus the prior year periods due to increased incentive compensation accruals. SG&A expenses for the fiscal quarter and nine fiscal months ended October 3, 2020 include \$(0.4) million and \$(0.9) million, respectively, of incremental costs (benefits) separable from normal operations directly attributable to the COVID-19 pandemic.

Other Income (Expense)

Interest expense for the fiscal quarter ended October 2, 2021 was essentially flat versus the fiscal quarter ended July 3, 2021 and decreased \$3.0 million versus the fiscal quarter ended October 3, 2020. Interest expense for the nine fiscal months ended October 2, 2021 decreased by \$11.2 million versus the nine fiscal months ended October 3, 2020. The decreases versus the prior year periods are primarily due to the elimination of non-cash debt discount amortization upon the adoption of ASU No. 2020-06 effective January 1, 2021 and repurchases of convertible notes in the second and third fiscal quarters of 2020. See Note 1 to the consolidated condensed financial statements.

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

	Fiscal quarters ended		Change
	October 2, 2021	October 3, 2020	
Foreign exchange gain (loss)	\$ 325	\$ (2,339)	\$ 2,664
Interest income	295	514	(219)
Other components of net periodic pension expense	(3,257)	(3,267)	10
Investment income	(41)	201	(242)
Other	(1)	(7)	6
	<u>\$ (2,679)</u>	<u>\$ (4,898)</u>	<u>\$ 2,219</u>

	Fiscal quarters ended		Change
	October 2, 2021	July 3, 2021	
Foreign exchange gain (loss)	\$ 325	\$ (1,824)	\$ 2,149
Interest income	295	325	(30)
Other components of net periodic pension expense	(3,257)	(3,305)	48
Investment income (expense)	(41)	1,055	(1,096)
Other	(1)	-	(1)
	<u>\$ (2,679)</u>	<u>\$ (3,749)</u>	<u>\$ 1,070</u>

	Nine fiscal months ended		Change
	October 2, 2021	October 3, 2020	
Foreign exchange gain (loss)	\$ (2,110)	\$ (1,658)	\$ (452)
Interest income	907	3,324	(2,417)
Other components of net periodic pension expense	(9,864)	(9,398)	(466)
Investment income (expense)	(1,107)	1,570	(2,677)
Other	15	(22)	37
	<u>\$ (12,159)</u>	<u>\$ (6,184)</u>	<u>\$ (5,975)</u>

Income Taxes

For the fiscal quarter ended October 2, 2021, our effective tax rate was 16.6%, as compared to 20.3% and 26.4% for the fiscal quarters ended July 3, 2021 and October 3, 2020, respectively. For the nine fiscal months ended October 2, 2021, our effective tax rate was 18.3%, as compared to 23.0% for the nine fiscal months ended October 3, 2020. With the reduction in the U.S. statutory rate to 21% beginning January 1, 2018, we expect that our effective tax rate will now be higher than the U.S. statutory rate, excluding unusual transactions. Historically, the effective tax rates were generally less than the U.S. statutory rate primarily because of earnings in foreign jurisdictions. Discrete tax items impacted our effective tax rate for each 2021 fiscal quarter presented. These items were \$(5.7) million (tax benefit) in the fiscal quarter ended October 2, 2021 and \$(3.9) million (tax benefit) in the fiscal quarter ended July 3, 2021.

The effective tax rate for the fiscal quarter ended October 2, 2021 was impacted by a \$5.7 million tax benefit recognized upon the release of a valuation allowance.

The effective tax rate for the fiscal quarter ended July 3, 2021 was impacted by a \$3.9 million tax benefit recognized due to a change in tax regulations.

The effective tax rate for the nine fiscal months ended October 2, 2021 was impacted by \$8.3 million of tax benefits recognized due to changes in tax regulations.

The effective tax rate for the nine fiscal months ended October 3, 2020 was impacted by the repatriation of \$104.1 million to the United States, which completed the cash repatriation program that we initiated in 2017 in response to the enactment of the TCJA and the effect of the repurchase of convertible debentures. We recognized tax benefits of \$1.3 million reflecting the reduction in deferred tax liabilities related to the special tax attributes of the convertible debentures.

During the nine fiscal months ended October 2, 2021, the liabilities for unrecognized tax benefits decreased by \$1.3 million on a net basis, primarily due to a payment, statute expiration, and currency translation adjustments, partially offset by accruals for current year tax positions and interest.

We operate in a global environment with significant operations in various locations outside the United States. Accordingly, the consolidated income tax rate is a composite rate reflecting our earnings and the applicable tax rates in the various locations where we operate. Part of our historical strategy has been to achieve cost savings through the transfer and expansion of manufacturing operations to countries where we can take advantage of lower labor costs and available tax and other government-sponsored incentives.

Additional information about income taxes is included in Note 4 to our consolidated condensed financial statements.

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 last 19 years, and cash flows from operations in excess of \$100 million in each of the last 26 years.

Management uses a non-GAAP measure, "free cash," to evaluate our ability to fund acquisitions, repay debt, and otherwise enhance stockholder value through stock repurchases or dividends. See "Overview" above for "free cash" definition and reconciliation to GAAP. Vishay has generated positive "free cash" in each of the past 24 years, and "free cash" in excess of \$80 million in each of the last 19 years. In this volatile economic environment, we continue to focus on the generation of free cash, including an emphasis on cost controls.

We expect our business to continue to be a reliable generator of free cash. 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. We generated cash flows from operations of \$310.5 million and "free cash" of \$193.6 million in the nine fiscal months ended October 2, 2021.

The COVID-19 pandemic and the mitigation efforts by governments to control its spread did not have a significant impact on our financial condition, liquidity, or capital resources.

We completed our cash repatriation program that we initiated in response to the TCJA in 2020. We continue to evaluate the TCJA's provisions and may further adjust our financial and capital structure and business practices accordingly.

We maintain a revolving credit facility, which provides an aggregate commitment of \$750 million of revolving loans available until June 5, 2024. The maximum amount available on the revolving credit facility is restricted by the financial covenants described below. The credit facility also provides us the ability to request up to \$300 million of incremental facilities, subject to the satisfaction of certain conditions, which could take the form of additional revolving commitments, incremental "term loan A" or "term loan B" facilities, or incremental equivalent debt.

At December 31, 2020, we had no amounts outstanding on our revolving credit facility. We had no amounts outstanding at October 2, 2021. We borrowed \$709 million and repaid \$709 million on the revolving credit facility during the nine fiscal months ended October 2, 2021. The average outstanding balance on our revolving credit facility calculated at fiscal month-ends was \$100.4 million and the highest amount outstanding on our revolving credit facility at a fiscal month end was \$162 million during the nine fiscal months ended October 2, 2021.

The revolving credit facility limits or restricts us from, among other things, incurring indebtedness, incurring liens on its respective assets, making investments and acquisitions (assuming our pro forma leverage ratio is greater than 2.75 to 1.00), making asset sales, and paying cash dividends and making other restricted payments (assuming our pro forma leverage ratio is greater than 2.50 to 1.00), and requires us to comply with other covenants, including the maintenance of specific financial ratios.

The financial maintenance covenants include (a) an interest 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 3.00 to 1 on the date of incurrence of additional debt). 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 June 5, 2019.

We were in compliance with all financial covenants under the credit facility at October 2, 2021. Our interest coverage ratio and leverage ratio were 27.34 to 1 and 0.83 to 1, respectively. We expect to continue to be in compliance with these covenants based on current projections. Based on our current EBITDA and outstanding revolver balance, the full amount of the revolving credit facility is useable.

If we are not in compliance with all of the required financial covenants, the credit facility could be terminated by the lenders, and any amounts then outstanding pursuant to the credit facility could become immediately payable. Additionally, our convertible senior notes due 2025 have cross-default provisions that could accelerate repayment in the event the indebtedness under the credit facility is accelerated.

The credit facility allows an unlimited amount of defined "Investments," which include certain intercompany transactions and acquisitions, provided our pro forma leverage ratio is equal to or less than 2.75 to 1.00. If our pro forma leverage ratio is greater than 2.75 to 1.00, such Investments are subject to certain limitations.

The credit facility also allows an unlimited amount of defined "Restricted Payments," which include cash dividends and share repurchases, provided our pro forma leverage ratio is equal to or less than 2.50 to 1.00. If our pro forma leverage ratio is greater than 2.50 to 1.00, the credit facility allows such payments up to \$100 million per annum (subject to a cap of \$300 million for the term of the facility, with up to \$25 million of any unused amount of the \$100 million per annum base available for use in the next succeeding calendar year).

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, any new borrowings will bear interest at LIBOR plus 1.50%. The interest rate on any borrowings increases to LIBOR plus 1.75% if our leverage ratio is between 1.50 to 1 and 2.50 to 1 and further increases to 2.00% if our leverage ratio equals or exceeds 2.50 to 1.

We also pay a commitment fee, also based on our leverage ratio, on undrawn amounts. The undrawn commitment fee, based on our current leverage ratio, is 0.25% per annum. Such undrawn commitment fee increases to 0.30% per annum if our leverage ratio is between 1.50 to 1 and 2.50 to 1 and further increases to 0.35% per annum if our leverage ratio equals or exceeds 2.50 to 1.

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 solely for use in, or arising solely under the laws of, any country other than the United States, assets located solely 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.

During the first fiscal quarter of 2021, we redeemed the remaining \$0.3 million principal amount of convertible senior debentures due 2041 for \$0.3 million. We have no remaining convertible senior debentures.

As of October 2, 2021, substantially all of our cash and cash equivalents and short-term investment were held in countries outside of the United States. Our substantially undrawn credit facility provides us with significant operating liquidity in the United States. We expect, at least initially, to fund any future repurchases of convertible debt instruments, as well as other obligations required to be paid by the U.S. parent company, Vishay Intertechnology, Inc., including cash dividends to stockholders, share repurchases, and principal and interest payments on our debt instruments by borrowing under our revolving credit facility. Our U.S. subsidiaries also have operating cash needs.

Management expects to use the credit facility from time-to-time to meet certain short-term financing needs. We expect that cash on-hand and cash flows from operations will be sufficient to meet our longer-term financing needs related to normal operating requirements, regular dividend payments, and our research and development and capital expenditure plans. Additional acquisition activity, share repurchases, convertible debt repurchases, or conversion of our convertible debt may require additional borrowing under our credit facility or may otherwise require us to incur additional debt. No principal payments on our debt are due before 2025 and our revolving credit facility expires in June 2024.

The convertible senior notes due 2025 are not currently convertible. Pursuant to the indenture governing the convertible senior notes due 2025 and the amendments thereto incorporated in the Supplemental Indenture dated December 23, 2020, we will cash-settle the principal amount of \$1,000 per note and settle any additional amounts in shares of our common stock. We intend to finance the principal amount of any converted notes using borrowings under our credit facility. No conversions have occurred to date.

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 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 vary by location. The average interest rate on our short-term investments was 0.4% due to the low interest rate environment. 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 October 2, 2021 and December 31, 2020 (*in thousands*):

	October 2, 2021	December 31, 2020
Credit facility	\$ -	\$ -
Convertible senior notes, due 2025*	465,344	406,268
Convertible senior debentures, due 2040*	-	130
Deferred financing costs	<u>(10,496)</u>	<u>(11,512)</u>
Total debt	454,848	394,886
Cash and cash equivalents	831,760	619,874
Short-term investments	84,177	158,476
Net cash and short-term investments (debt)	<u>\$ 461,089</u>	<u>\$ 383,464</u>

*Represents the carrying amount of the convertible instruments, which was significantly impacted by the adoption of ASU No. 2020-06. See Notes 1 and 5 to the consolidated condensed financial statements.

"Net cash and short-term investments (debt)" does not have a uniform definition and is not recognized in accordance with GAAP. This measure should not be viewed as an alternative to GAAP measures of performance or liquidity. However, management believes that an analysis of "net cash and short-term investments (debt)" assists investors in understanding aspects of our cash and debt management. The measure, as calculated by us, may not be comparable to similarly titled measures used by other companies.

Our financial condition as of October 2, 2021 continued to be strong, with the current ratio (current assets to current liabilities) increasing to 3.1 to 1 from 3.0 to 1 at December 31, 2020. The increases in cash, short-term investments, accounts receivable, and inventory were greater than the increases in trade accounts payable, accrued expenses, and income taxes payable. Our ratio of total debt to Vishay stockholders' equity was 0.26 to 1 at October 2, 2021, as compared to 0.25 to 1 at December 31, 2020. The increase in the ratio is primarily due to the increase in the carrying value of our long-term debt upon the adoption of ASU No. 2020-06. See Notes 1 and 5 to the consolidated condensed financial statements.

Cash flows provided by operating activities were \$310.5 million for the nine fiscal months ended October 2, 2021, as compared to cash flows provided by operations of \$189.2 million for the nine fiscal months ended October 3, 2020.

Cash paid for property and equipment for the nine fiscal months ended October 2, 2021 was \$118.2 million, as compared to \$70.8 million for the nine fiscal months ended October 3, 2020. To be well positioned to service our customers and to fully participate in growing markets, we intend to increase our capital expenditures for expansion in the mid-term. For the year 2021, we expect to invest approximately \$250 million in capital expenditures.

Cash paid for dividends to our common and Class B common stockholders totalled \$41.3 million and \$41.2 million for the nine fiscal months ended October 2, 2021 and October 3, 2020, respectively. We expect dividend payments in 2021 to total approximately \$55.0 million. However, any future dividend declaration and payment remains subject to authorization by our Board of Directors.

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; delays or difficulties in implementing our cost reduction strategies; delays or difficulties in expanding our manufacturing capacities; manufacturing or supply chain interruptions or changes in customer demand because of COVID-19 or otherwise; an inability to attract and retain highly qualified personnel; changes in foreign currency exchange rates; uncertainty related to the effects of changes in foreign currency exchange rates; competition and technological changes in our industries; difficulties in new product development; difficulties in identifying suitable acquisition candidates, consummating a transaction on terms which we consider acceptable, and integration and performance of acquired businesses; changes in applicable domestic and foreign tax regulations and uncertainty regarding the same; changes in U.S. and foreign trade regulations and tariffs and uncertainty regarding the same; changes in applicable accounting standards and other factors affecting our operations, markets, capacity to meet demand, 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 2020 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

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, 2020, filed with the SEC on February 24, 2021, describes our exposure to market risks. There have been no material changes to our market risks since December 31, 2020.

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.

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, 2020, filed with the SEC on February 24, 2021 describes certain of our legal proceedings. There have been no material developments to the legal proceedings previously disclosed.

Item 1A. Risk Factors

There have been no material changes to the risk factors we previously disclosed under Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 24, 2021.

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

- | | |
|----------------------|---|
| 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 October 2, 2021, furnished in iXBRL (Inline eXtensible Business Reporting Language)). |
| 104 | Cover Page Interactive Data File (formatted as Inline eXtensible Business Reporting Language and contained in Exhibit 101) |

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: November 3, 2021

CERTIFICATIONS

I, Dr. Gerald Paul, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vishay Intertechnology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2021

/s/ Gerald Paul
Dr. Gerald Paul
Chief Executive Officer

CERTIFICATIONS

I, Lori Lipcaman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vishay Intertechnology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2021

/s/ Lori Lipcaman

Lori Lipcaman

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Vishay Intertechnology, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended October 2, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dr. Gerald Paul, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gerald Paul
Dr. Gerald Paul
Chief Executive Officer
November 3, 2021

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Vishay Intertechnology, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended October 2, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lori Lipcaman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lori Lipcaman

Lori Lipcaman
Chief Financial Officer
November 3, 2021