VISHAY INTERTECHNOLOGY INC
Form 10-K
February 27, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

or

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

For the transition period from _____ to _____
Commission file number 1-7416

Vishay Intertechnology, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**38-1686453**
(State or other jurisdiction of incorporation or organization)	**(IRS employer identification no.)**

63 Lancaster Avenue
Malvern, Pennsylvania 19355-2143
(Address of principal executive offices)

(610) 644-1300
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.10 par value
(Title of Class)

New York Stock Exchange
(Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes	**No**
x	**o**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes	**No**
o	**x**

Note Checking the box above will not relieve any registrant required to file reports under Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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
x	o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **x**

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o

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

Yes	No
o	x

The aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant s most recently completed second fiscal quarter ($15.73 on July 1, 2006), assuming conversion of all of its Class B common stock held by non-affiliates into common stock of the registrant, was $2,669,666,000. There is no non-voting stock outstanding.

As of February 23, 2007, registrant had 170,110,187 shares of its common stock and 14,358,361shares of its Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement, which will be filed within 120 days of December 31, 2006, are incorporated by reference into Part III.

Vishay Intertechnology, Inc.
Form 10-K for the year ended December 31, 2006

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PART I

Item 1. BUSINESS

General

Vishay Intertechnology, Inc. is a leading international manufacturer and supplier of semiconductors and passive electronic components. Semiconductors include diodes, transistors, rectifiers, power integrated circuits (ICs), infrared (IR) transceivers, IR sensors, and optocouplers. Passive Components include resistors, capacitors, transducers, and inductors. Discrete semiconductors and passive electronic components are the primary elements of almost every electronic circuit. We offer our customers one-stop access to one of the most comprehensive electronic component lines of any manufacturer in the United States, Europe and Asia.

Our components are used in virtually every type of product that contains electronic circuitry, including:

computer-related products,

power management products,

telecommunications equipment,

measuring instruments,

industrial equipment,

automotive applications,

process control systems,

military and aerospace applications,

consumer electronics and appliances,

medical instruments, and

electronic scales.

Since 1985, we have pursued a business strategy that principally consists of the following elements:

1. expanding within the electronic components industry, primarily through the acquisition of other manufacturers of electronic components that have established positions in major markets, reputations for product quality and reliability, and product lines with which we have substantial marketing and technical expertise;

2. reducing selling, general, and administrative expenses through the integration or elimination of redundant sales offices and administrative functions at acquired companies;

3. achieving significant production cost savings through the transfer and expansion of manufacturing operations to countries such as the Czech Republic, India, Israel, Malaysia, Mexico, the People s Republic of China, and the Philippines, where we can take advantage of lower labor costs and available tax and other government-sponsored incentives;

4. maintaining significant production facilities in those regions where we market the bulk of our products in order to enhance the service and responsiveness that we provide to our customers;

5. consistently rolling out new and innovative products; and

6. strengthening our relationships with customers and strategic partners.

As a result of this strategy, we have grown from a small manufacturer of precision resistors and resistance strain gages to one of the world s largest manufacturers and suppliers of a broad line of electronic components.

Acquisition of Power Control Systems Business of International Rectifier Corporation

On November 8, 2006, we signed agreements to acquire the Power Control Systems (PCS) business of International Rectifier Corporation for $289.7 million in cash, subject to a net working capital adjustment. Sales of the PCS business were approximately $300 million in International Rectifier s fiscal year ended June 2006 and approximately $81 million in International Rectifier s fiscal quarter ended December 2006. This acquisition will broaden our product line, and will provide Vishay with a new platform to integrate our passive components into the acquired modules, creating a new product line through the synergy of passive and semiconductor components. Vishay and International Rectifier have mutually agreed to a closing by April 1, 2007. The agreements are subject to customary closing conditions.

The Vishay Story

In the 1950 s, Dr. Felix Zandman was issued patents for his PhotoStress® coatings and instruments, used to reveal and measure the distribution of stresses in structures such as airplanes and cars under live load conditions. His research in this area led him to develop Bulk Metal® foil resistors ultra-precise, ultra-stable resistors with performance far beyond any other resistor available to date.

In 1962, Dr. Zandman, with the financial help of the late Alfred P. Slaner, founded Vishay to develop and manufacture Bulk Metal® foil resistors. Concurrently, J.E. Starr developed foil resistance strain gages, which also became part of Vishay. Throughout the 1960 s and 1970 s, Vishay established itself as a technical and market leader in foil resistors, PhotoStress® products and strain gages.

In 1985, Vishay began to expand its product line through various strategic acquisitions, including the resistor companies Dale Electronics, Draloric Electronic, and Sfernice. In the early 1990 s, Vishay applied its acquisition strategy to the capacitor market, with the major acquisitions of Sprague Electric, Roederstein, and Vitramon. In 2002, Vishay acquired BCcomponents, the former passive components business of Philips Electronics and Beyschlag, which greatly enhanced Vishay s global market position in passive components. Over the years, we have made several smaller passive components acquisitions to gain market share, effectively penetrate different geographic markets, enhance new product development, round out our product lines, or grow our high margin niche businesses. These include Electro-Films, Cera-Mite, and Spectrol in 2000; Tansitor and North American Capacitor Company (Mallory) in 2001; the thin film interconnect business of Aeroflex in 2004; Alpha Electronics K.K. in 2005; and Phoenix do Brasil in 2006.

In the late 1990 s, Vishay began expanding its product lines to include discrete semiconductors. In 1998, Vishay acquired the Semiconductor Business Group of TEMIC, which included Telefunken and an 80.4% interest in Siliconix, producers of transistors, diodes, optoelectronics, and power and analog switching integrated circuits. Vishay s next semiconductor acquisition came in 2001, with the purchase of the infrared components business of Infineon Technologies, which was followed the same year by Vishay s acquisition of General Semiconductor, a leading global manufacturer of rectifiers and diodes. In 2005, Vishay made a successful tender offer for the minority interest in Siliconix. These acquisitions propelled Vishay into the top ranks of discrete semiconductor manufacturers, a position that will be further enhanced by the addition of the PCS business in 2007.

During 2002, we made several acquisitions as part of our Measurements Group s strategy of vertical market integration, including the Sensortronics, Tedea-Huntleigh, BLH, Nobel, and Celtron businesses. In 2005, we acquired SI Technologies. As a result of these acquisitions, the product portfolio of our Measurements Group has been expanded and we are now a world leader in stress analysis products and transducers used in the weighing industry (load cells).

Relying on the strength of our balance sheet, we continue to explore opportunities to acquire electronic component manufacturers that have established positions in major markets, reputations for product quality and reliability, and product lines with which we have substantial marketing and technical expertise.

We also seek to explore opportunities with privately held developers of electronic components, or start-ups, whether through acquisition, investment in non-controlling interests, or strategic alliances. We made the first such investment in August 2004, when we acquired substantially all of the assets of RFWaves, Ltd., a fab-less integrated circuit design house located in Israel. We made an additional investment in October 2005, when we acquired substantially all of the assets of CyOptics Israel, Ltd., the Israeli subsidiary of Cyoptics, Inc., a manufacturer of infrared devices. We principally use the facility acquired from CyOptics for research and development purposes.

In addition to our acquisition activity in recent years, we have taken steps to assure our competitiveness, enhance our operating efficiency and strengthen our liquidity. In this regard, we:

(i) closed or consolidated several manufacturing facilities and administrative offices;

(ii) reduced our headcount, particularly in high-labor-cost countries; and

(iii) integrated our acquisitions within our existing management and operational infrastructure.

Vishay was incorporated in Delaware in 1962 and maintains its principal executive offices at 63 Lancaster Avenue, Malvern, Pennsylvania 19355-2143. Our telephone number is (610) 644-1300.

Products

We design, manufacture, and market electronic components that cover a wide range of products and technologies. Our products primarily consist of:

resistors,

tantalum capacitors,

multi-layer and disc ceramic capacitors (MLCCs),

aluminum and specialty ceramic capacitors,

film capacitors,

power MOSFETs,

power ICs,

inductors,

signal processing ICs,

transistors,

voltage suppressors,

infrared data transceivers (IRDCs),

optocouplers,

IR sensors,

strain gages and load cells,

diodes and rectifiers,

and, to a lesser extent:

connectors,

transformers,

plasma displays,

thermistors, and

potentiometers.

We believe that we produce one of the broadest lines of discrete electronic components available from any single manufacturer. We aim to use this broad product line to drive internal growth through design-in activities, providing our customers with a one-stop shop for their component needs.

Product Segments

Our products can be divided into two general classes: semiconductors and passive components. These broad categories are also the basis used to determine our operating segments for financial reporting purposes. See Note 15 to our consolidated financial statements for additional information on revenues, income, and total assets by segment.

Semiconductors

Our Semiconductors segment products include both discrete devices and integrated circuits (ICs). They sometimes are referred to as active components because they require power to function. Discrete devices are single components or an arrangement of components that generate, control, regulate and amplify or switch electronic signals or energy. Examples of our discrete semiconductors include diodes, rectifiers, transient voltage suppressors, transistors and power MOSFETs. These devices are interconnected with passive components or other semiconductors to create an electronic circuit. Our IC devices consist of a number of active and passive components interconnected on a single chip to perform a specific function. Examples of our integrated circuits include power ICs, motor control ICs, and signal processing ICs. Our discrete semiconductors and ICs are manufactured and marketed primarily through our Siliconix subsidiary, our Vishay Semiconductor GmbH subsidiary, and our General Semiconductor business.

We also include in the category of semiconductors our line of optoelectronic components, manufactured and marketed by our subsidiary Vishay Semiconductor GmbH, our infrared components business, and our radio frequency products business.

Discrete Devices

Diodes and rectifiers are used to convert electrical currents from alternating current (AC) into direct current (DC) by conducting electricity in one direction and blocking it in the reverse direction. Because electrical outlets carry AC while the vast majority of electronic devices use DC, rectifiers are used in a wide variety of applications. We offer a broad line of diodes and rectifiers with differing power, speed, cost, packaging and conversion (half wave or full wave) characteristics. Our rectifiers include a series of high voltage devices that have been optimized for power correction circuits.

Transient voltage suppressors protect electronic circuits by limiting voltage to a safe level. Examples of transient events that could damage unprotected circuits include static electricity charges and natural or induced lightning. Voltage suppressors protect circuits by absorbing large amounts of energy for short periods of time. We offer a broad range of state-of-the-art transient voltage suppressors for use in most modern electronic equipment.

Small signal diodes and transistors perform amplification, signal blocking, routing and switching functions at lower current levels. Our small-signal transistors range from the older junction field-effect transistors (JFETs), to newer products such as those based upon double-diffused metal oxide semiconductor (DMOS) technology.

Discrete power MOSFETs are specialized field-effect transistors used to switch and manage power in a broad range of electronic devices. Power MOSFETs conserve power and help prevent components from over-heating. They are used particularly in low-voltage applications such as cell phones, portable and desktop computers, automobiles, instrumentation and industrial applications. Our innovative TrenchFET® power MOSFET technology offers very high cell density, very low on-resistance and optimized switching parameters for high frequency DC-DC power conversion.

Integrated Circuits

Power ICs are used in applications such as cell phones, where an input voltage from a battery or other supply source must be switched, interfaced or converted to a level that is compatible with logic signals used by microprocessors and other digital components. Our ICs are designed to operate at higher frequencies without compromising efficiencies. Often our power MOSFETs and power ICs can be used together as chip sets with complementary performance characteristics optimized for a specific application.

Motor control ICs control the starting, speed, or position of electric motors, such as the head positioning and spindle motors in hard disk drives.

Signal processing ICs are used for analog switching and multiplexing in devices that either receive or output analog (non-digital) signals. A recent application of this technology is in broadband communications devices such as DSL modems.

Optoelectronics

Our line of optoelectronic components includes light emitting diodes (LEDs), infrared emitters (IREDs) and photo detectors, infrared receiver modules, optocouplers, solid-state relays (SSRs), optical sensors, and infrared data transceivers (IRDCs).

Our photo detectors are light-sensitive semiconductor devices, and include linear photo diodes for light measurement, photo-transistors for light switching applications in printers, copiers, facsimile machines, vending machines and automobiles, and high speed photo PIN diodes specially designed for infrared data transfer. Our photo detector products are available in a wide variety of sensitivity angles, light sensitivities, daylight filters and packaging shapes. Our infrared emitters are used for optical switching and data transfer applications, often in conjunction with our photo detectors, and in devices like infrared remote controls for televisions.

An optocoupler consists of an infrared emitting diode and a receiver facing each other through an insulation medium inside a light-isolated housing. The receiver may either be a photodetector or a pair of MOSFETs, and in the latter case the device is referred to as a solid-state relay (SSR). The function of an optocoupler is to electrically isolate input and output signals. Our optocouplers are used in switch mode power supplies, safety circuitry and programmable controllers for computer monitors, consumer electronics, telecommunications equipment and industrial systems.

IRDCs consist of a detector photo diode, an infrared light emitting diode, and a control IC. IRDCs are used for short range, two-way wireless, infrared data transfer between electronic devices such as mobile phones and other telecommunications equipment, computers, and personal digital assistants (PDAs). LEDs are light emitting diodes used as light indicators in a broad range of electronic devices.

Passive Components

Passive Components include resistors, inductors, and capacitors. They are referred to as passive because they do not require power to operate. These components adjust and regulate voltage and current, store energy, and filter frequencies. We also include in this category the products and services of our Measurements Group that employ passive components in electro-mechanical measurements.

Resistors and Inductors

Resistors are basic components used in all forms of electronic circuitry to adjust and regulate levels of voltage and current. They vary widely in precision and cost, and are manufactured from numerous materials and in many forms. Linear resistive components are classified as variable or fixed, depending on whether or not their resistance is adjustable. Non-linear resistors can also be used as measuring devices. We manufacture a line of thermistors, which are heat sensitive resistors. Another type of resistive sensors are strain gages for measurement of mechanical stress. See Measurements Group below.

We manufacture virtually all types of fixed resistors, both in discrete and network forms, as well as many variable types. These resistors are produced for virtually every segment of the resistive product market, from resistors used in the highest quality precision instruments for which the performance of the resistor is the most important requirement, to low-cost resistors for which price is the most important factor.

Inductors use an internal magnetic field to change the phase of electric current. They are utilized in electronic circuitry to control alternating current and voltage, and to filter out unwanted electronic signals. They are also used in transformers to change voltage levels.

Capacitors

Capacitors perform energy storage, frequency control, discharge, coupling, timing and filtering functions. The more important applications for capacitors are:

electronic filtering for linear and switching power supplies;

decoupling and bypass of electronic signals for integrated circuits and circuit boards; and

frequency control, timing and conditioning of electronic signals for a broad range of applications.

Our capacitor products include solid tantalum surface mount chip capacitors, solid tantalum leaded capacitors, wet/foil tantalum capacitors, MLCC capacitors, disc ceramic capacitors, aluminum and specialty ceramic capacitors, and film capacitors. Each capacitor product has unique physical and electrical performance characteristics that make that type of capacitor useful for specific applications. Tantalum and MLCC capacitors are generally used in conjunction with integrated circuits in applications requiring low to medium capacitance values, capacitance being the measure of the capacitor s ability to store energy. The tantalum capacitor is the smallest type of capacitor for its range of capacitance. MLCC capacitors are more cost-effective for applications requiring lower capacitance. Disc ceramic capacitors are used for high voltage applications. Aluminum capacitors are used for high capacitance applications. Film capacitors are the most stable capacitors and are suitable for general use in telecommunications, automotive, consumer, and industrial products.

Measurements Group

Vishay Measurements Group is a leading manufacturer of products for precision measurement of mechanical strains. Our products include strain gages, load cells, force measurement sensors, displacement sensors, and photoelastic sensors. These products are used in experimental stress analysis systems, as well as in the electronic measurement of loads (electronic scales), acceleration, and fluid pressure. The Measurements Group also provides installation accessories for its products, instrumentation to sample and record measurement output, and training seminars in stress analysis testing and transducer development and manufacture.

As a result of Vishay s acquisitions in 2002, the Measurements Group has implemented a strategy of vertical market integration, with a product range from resistance strain gages, to transducers (the metallic structures to which strain gages are cemented), to the electronic instruments and systems that measure and control output of the transducers. Vishay Measurements Group now has two operating divisions: Vishay Micro-Measurements (for strain gages, instruments and PhotoStress® products) and Vishay Transducers (for load cells, weigh modules, instruments and weighing systems).

Packaging

We have taken advantage of the growth of the surface mount component market, and we are an industry leader in designing and marketing surface mount devices. Surface mount devices adhere to the surface of a circuit board rather than being secured by leads that pass through holes to the back side of the board.

We believe that we are a market leader in the development and production of a wide range of surface mount devices, including:

thick film chip resistors,	wirewound chip resistors,
thick film resistor networks and arrays,	power strip resistors,
metal film leadless resistors (MELFs),	bulk metal foil chip resistors,
molded tantalum chip capacitors,	current sensing chips,
coated tantalum chip capacitors,	chip inductors,
multi-layer ceramic chip capacitors,	chip transformers,
thin film chip resistors,	chip trimmers,
thin film networks,	NTC chip thermistors,
certain diodes and transistor products,	PTC chip thermistors, and
power MOSFETs,	strain gages.

We also provide a number of component packaging styles to facilitate automated product assembly by our customers.

Military Qualifications

We have qualified certain of our products under various military specifications approved and monitored by the United States Defense Electronic Supply Center (DESC), and under certain European military specifications. DESC qualification levels are based in part upon the rate of failure of products. In order to maintain the classification level of a product, we must continuously perform tests on the product and the results of these tests must be reported to DESC. If the product fails to meet the requirements for the applicable classification level, the product s classification may be reduced to a lower level. During the time that the DESC classification level is reduced for a product with military application, net sales and earnings attributable to that product may be adversely affected.

Manufacturing Operations

In order to better serve our customers, we maintain production facilities in regions where we market the bulk of our products, such as the United States, Germany, and Asia. To maximize production efficiencies, we seek whenever practicable to establish manufacturing facilities in countries, such as the Czech Republic, Hungary, India, Israel, Malaysia, Mexico, the People s Republic of China, and the Philippines, where we can take advantage of lower labor and tax costs and, in the case of Israel, to take advantage of various government incentives, including grants and tax relief.

One of our most sophisticated manufacturing operations is the production of power semiconductor components. This manufacturing process involves two phases of production: wafer fabrication and assembly (or packaging). Wafer fabrication subjects silicon wafers to various thermal, metallurgical, and chemical process steps that change their electrical and physical properties. These process steps define cells or circuits within numerous individual devices (termed dies or chips) on each wafer. Assembly is the sequence of production steps that divides the wafer into individual chips and encloses the chips in structures (termed packages) that make them usable in a circuit. Both wafer fabrication and assembly phases incorporate wafer level and device level electrical testing to ensure that device design integrity has been achieved.

In the United States, our manufacturing facilities are located in California, Connecticut, Nebraska, New York, North Carolina, Pennsylvania, Rhode Island, South Dakota, Vermont, and Wisconsin. In Asia, our main manufacturing facilities are located in the People s Republic of China, the Republic of China (Taiwan), India, and Malaysia. In Europe, our main manufacturing facilities are located in Germany, Hungary, and the Czech Republic. We also have manufacturing facilities in Israel (see Israeli Government Incentives below), Austria, Belgium, Brazil, Costa Rica, France, Japan, Mexico, the Netherlands, Portugal, the Philippines and Sweden. Over the past several years, we have invested substantial resources to increase capacity and to maximize automation in our plants, which we believe will further reduce production costs.

We are aggressively undertaking to have the quality systems at most of our major manufacturing facilities approved under the ISO 9001 international quality control standard. ISO 9001 is a comprehensive set of quality program standards developed by the International Standards Organization. A majority of our manufacturing operations have already received ISO 9001 approval and others are actively pursuing such approval.

To maintain our cost competitiveness, we continue to pursue a strategy to shift manufacturing emphasis to more advanced automation in higher labor cost regions and to relocate a fair amount of production to regions with skilled workforces and relatively lower labor costs. See Note 4 to our consolidated financial statements for further information related to our restructuring efforts, as well as additional information in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Cost Management.

See Note 15 to our consolidated financial statements for financial information by geographic area.

Sources of Supplies

Although most materials incorporated in our products are available from a number of sources, certain materials, particularly tantalum and palladium, are available only from a relatively limited number of suppliers.

Tantalum

We are a major consumer of the world s annual production of tantalum, a metal used in the manufacture of tantalum capacitors. There are currently three major suppliers that process tantalum ore into capacitor grade tantalum powder. We were obligated under contracts with Cabot Corporation to make purchases of tantalum through 2006. These purchase commitments were entered into at a time when market demand for tantalum capacitors was high and tantalum powder was in short supply. Since that time, the price of tantalum has decreased significantly, and accordingly, we wrote down the carrying value of our tantalum inventory on-hand and recognized losses on future purchase commitments. These write-downs and purchase commitments are discussed in further detail in Note 14 to our consolidated financial statements.

Palladium

Palladium, a metal used to produce multi-layer ceramic capacitors, is currently found primarily in South Africa and Russia. We periodically enter into short-term commitments to purchase palladium. Palladium is a commodity product that is subject to price volatility. We have in the past recorded write-downs of palladium inventory on-hand and recognized losses on future purchase commitments due to this price volatility. These write-downs and purchase commitments are discussed in further detail in Note 14 to our consolidated financial statements.

Israeli Government Incentives

We have substantial manufacturing operations in Israel, where we benefit from the government s employment and tax incentive programs. These programs have contributed substantially to our growth and profitability. For the year ended December 31, 2006, sales of products manufactured in Israel accounted for approximately 19% of our net sales.

Under the terms of the Israeli government s incentive programs, once a project is approved, the recipient is eligible to receive the benefits of the related grants for the life of the project, so long as the recipient continues to meet preset eligibility standards. None of our approved projects has ever been cancelled or modified, and we have already received approval for a majority of the projects contemplated by our capital expenditure program. Over the past few years, the Israeli government has scaled back or discontinued some of its incentive programs. There can be no assurance that we will maintain our eligibility for existing projects or that in the future the Israeli government will continue to offer new incentive programs applicable to us or that, if it does, such programs will provide the same level of benefits we have historically received or that we will continue to be eligible to take advantage of them. Because we have received approvals for most projects currently contemplated, we do not anticipate that cutbacks in the incentive programs for new projects would have an adverse impact on our earnings and operations for at least several years.

We might be materially adversely affected if events were to occur in the Middle East that interfered with our operations in Israel. However, we have never experienced any material interruption in our Israeli operations in our 36 years of operations there, in spite of several Middle East crises, including wars.

Inventory and Backlog

We manufacture both standardized products and those designed and produced to meet customer specifications. We maintain an inventory of standardized components, and monitor the backlog of outstanding orders for our products.

We include in our backlog only open orders that have been released by the customer for shipment in the next twelve months. Many of our customers encounter uncertain and changing demand for their products. They typically order products from us based on their forecasts. 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 at any point in time is not necessarily indicative of the results to be expected for future periods.

Customers and Marketing

We sell our products to original equipment manufacturers (OEMs), electronic manufacturing services (EMS) companies, which manufacture for OEMs on an outsourcing basis, and independent distributors that maintain large inventories of electronic components for resale to OEMs. During 2006, approximately 40% of our sales were to distributors, approximately 51% of our sales were to OEMs, and approximately 9% of our sales were to EMS companies.

To better serve our customers, we maintain production facilities in regions where we market the bulk of our products. We work with our customers so that our products are incorporated into the design of electronic equipment at the earliest stages of development. In addition to our staff of direct field sales personnel, independent manufacturers representatives, and distributors, we employ a team of field application and product engineers to assist our customers in solving technical problems and in developing products to meet specific application needs.

Our sales organizations are regionally based. While our sales and support procedures are typically similar across all regions, we remain flexible in our ability to offer programs tailored to our customers specific support requirements in each local area. The aim of our sales organizations is to support our customers across all product lines, developing new design-wins, negotiating pricing and contracts, and providing general commercial support as would normally be expected of a large multi-national sales force.

We market our products in different geographic areas as follows:

North America: Sales are made by our North American sales force, sales representative organizations, and distributors. Sales representatives are compensated by commissions. Regional sales directors employed by Vishay coordinate these representatives and the North American sales force. Our North American sales headquarters are located in Shelton, Connecticut. Regional sales offices are located in or near Chicago, Illinois; Tampa, Florida; Irving, Texas; Santa Clara, California; Orange County, California; Hauppauge, New York; Huntsville, Alabama; Wendell, North Carolina; Warwick, Rhode Island; Boston, Massachusetts; Juarez, Mexico; and Guadalajara, Mexico.

South America: Sales are made by our South American sales force, sales representative organizations, and distributors. Sales representatives are compensated by commissions. Regional sales directors employed by Vishay coordinate these representatives and the South American sales force. Our South American sales offices are located in Campinas and Sao Paulo, Brazil.

Europe: Sales of our products in Europe are made by our European sales force, sales representative organizations, and distributors. Sales representatives are compensated by commissions. Regional sales directors employed by Vishay coordinate these representatives and the European sales force. Our European headquarters are in Selb, Germany. Regional sales offices are in Heilbronn, Landshut, and Selb, Germany; Sunderland, Attleborough, and Bracknell, United Kingdom; Paris, Chartres, and Nice, France; Madrid, Spain; Stockholm, Sweden; Helsinki, Finland; Milan, Italy; Istanbul, Turkey; Warsaw, Poland; Moscow, Russia; Budapest, Hungary; Voecklabruck, Austria; and Eindhoven, the Netherlands.

Asia: Sales are made in Hong Kong, Korea, the Republic of China (Taiwan), the People s Republic of China, Japan, and Southeast Asia by our Asia sales force, sales representative organizations, and distributors. Our Asian sales headquarters are in Singapore. Regional sales offices are located in Singapore; Taipei, Taiwan; Beijing, Guangzhou, Shanghai, Shenzhen, Tianjin, and Hong Kong, China; Tokyo and Osaka, Japan; Seoul and Gumi, Korea; New Delhi, Pune and Bangalore, India; Penang, Malaysia; and Bangkok, Thailand.

Sales in the rest of the world are made through sales representatives, stocking representatives, and distributors.

We have established a Strategic Global Account program, which provides each of our top customers with a dedicated Strategic Global Account Manager. Vishay Strategic Global Account Managers are typically highly experienced salesmen or saleswomen who are capable of providing key customers with the coordination and management visibility required in a complex multi-product business relationship. They typically coordinate the sales, pricing/contract, logistic, quality, and other aspects of the customer s business requirements. The Strategic Global Account Manager normally is the focal point of communication between us and our main customers.

In addition, Vishay has launched an initiative to better meet the needs of our customers for technical and applications support. As a project started three years ago, Vishay s Business Development group now puts a team of dedicated Field Application Engineers (FAEs) in the field for the exclusive support of our customers engineering needs. Organized by market segment, our Business Development FAEs bring specific knowledge of component applications in their areas of expertise in the automotive, telecommunications, computer, consumer/entertainment, industrial, peripherals, and digital consumer market segments. With the ultimate goal of a Vishay design-in the process by which our customers specify a Vishay component in their products this program offers our customers superior access to Vishay technologies while at the same time increasing design wins, and ultimately sales, for Vishay. Most importantly, the process is closely monitored via a proprietary database developed by the Vishay Business Development group. Our database captures very specific design activity and allows for real-time measurement of new business potential for our management team.

Our top 30 customers have been quite stable despite not having long-term commitments to purchase our products. With selected customers, we have signed two to three year contracts for specific products. Sales to our top 30 customers comprise approximately 60% of our total sales.

During 2006, approximately 26% of our net sales were attributable to customers in the Americas, approximately 37% were attributable to customers in Europe, and approximately 37% were attributable to customers in Asia. During 2006, the share of net sales by end-use market was as follows: Industrial, 38%; Computer, 19%; Automotive, 14%; Telecommunications, 13%; Consumer Products, 11%; Aerospace and Military, 4%; Medical, 1%.

Competition

We face strong competition in various product lines from both domestic and foreign manufacturers that produce products using technologies similar to ours. Our primary competitors by product type include:

Discrete Devices: Fairchild Semiconductor, International Rectifier, Infineon, ON Semiconductor, NXP Semiconductors (former Philips semiconductor division), Rohm, STMicroelectronics, Toshiba.

Integrated Circuits: Fairchild Semiconductor, International Rectifier, Infineon, Maxim, ON Semiconductor, STMicroelectronics, Texas Instruments.

Optoelectronics: Avago, Fairchild Semiconductor, Sharp, Toshiba.

Resistors and Inductors: EPCOS, KOA, Rohm, Yageo.

Capacitors: AVX, EPCOS, KEMET, Murata, TDK, Yageo.

Measurements Group: various niche competitors.

There are many other companies that produce products in the markets in which we compete.

Our competitive position depends on our ability to maintain a competitive advantage on the basis of product quality, know-how, proprietary data, market knowledge, service capability, business reputation, and price competitiveness. Our sales and marketing programs aim to offer our customers a broad range of world class technologies, superior global sales and distribution support, and a secure and multi-location source of product supply.

Research and Development

Many of our products and manufacturing techniques, technologies, and packaging methods have been invented, designed, and developed by our engineers and scientists. We maintain strategically placed design centers where proximity to customers enables us to more easily gauge and satisfy the needs of local markets. These design centers are located predominantly in the United States, Germany, Israel, the People s Republic of China, France, the Republic of China (Taiwan), and South Korea.

We also maintain research and development staffs and promote programs at a number of our production facilities to develop new products and new applications of existing products, and to improve manufacturing techniques. This decentralized system encourages individual product development at individual manufacturing facilities that occasionally has applications at other facilities. Our research and development efforts over the past few years have been largely focused on our Semiconductors segment, principally for the development of new power products and power ICs. We also have research and development programs that should enhance our efforts in vertical integration of our product lines, combining Vishay components in packages. Examples of these packages include combinations of our sensors and our radio frequency technology to create wireless transducers, wireless precision potentiometers, and other new products.

Patents and Licenses

We have made a significant investment in securing intellectual property protection for our technology and products. We seek to protect our technology by, among other things, filing patent applications for technology considered important to the development of our business. We also rely upon trade secrets, unpatented know-how, continuing technological innovation, and the aggressive pursuit of licensing opportunities to help develop and maintain our competitive position.

Our ability to compete effectively with other companies depends, in part, on our ability to maintain the proprietary nature of our technology. Although we have been awarded, have filed applications for, or have been licensed under, numerous patents in the United States and other countries, there can be no assurance concerning the degree of protection afforded by these patents or the likelihood that pending patents will be issued.

We require all of our technical, research and development, sales and marketing, and management employees and most consultants and other advisors to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements provide that all confidential information developed or made known to the entity or individual during the course of the entity s or individual s relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. Substantially all of our technical, research and development, sales and marketing, and management employees have entered into agreements providing for the assignment to us of rights to inventions made by them while employed by us.

When we believe other companies are misappropriating our intellectual property rights, we vigorously enforce those rights through legal action, and we intend to continue to do so. See Item 3, Legal Proceedings.

Although we have numerous United States and foreign patents covering certain of our products and manufacturing processes, no particular patent is considered individually material to our business.

Environment, Health and Safety

We have adopted an Environmental Health and Safety Corporate Policy that commits us to achieve and maintain compliance with applicable environmental laws, to promote proper management of hazardous materials for the safety of our employees and the protection of the environment, and to minimize the hazardous materials generated in the course of our operations. This policy is implemented with accountability directly to the Board of Directors. In addition, our manufacturing operations are subject to various federal, state, and local laws restricting discharge of materials into the environment.

Vishay is involved in environmental remediation programs at various sites currently or formerly owned by Vishay and its subsidiaries, in addition to involvement as a potentially responsible party (PRP) at three Superfund sites. Certain obligations as a PRP have arisen in connection with business acquisitions. The remediation programs are on-going at three currently operating U.S. facilities, nine currently operating non-U.S. facilities, and six formerly owned U.S. sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations and alternative cleanup methods. See Item 3, Legal Proceedings.

We are not involved in any pending or threatened proceedings that would require curtailment of our operations. We continually expend funds to ensure that our facilities comply with applicable environmental regulations. While we believe that we are in material compliance with applicable environmental laws, we cannot accurately predict future developments and do not necessarily have knowledge of all past occurrences on sites that we currently occupy. More stringent environmental regulations may be enacted in the future, and we cannot determine the modifications, if any, in our operations that any such future regulations might require, or the cost of compliance with such regulations. Moreover, the risk of environmental liability and remediation costs is inherent in the nature of our business and, therefore, there can be no assurance that material environmental costs, including remediation costs, will not arise in the future.

With each acquisition, we attempt to identify potential environmental concerns and to minimize, or obtain indemnification for, the environmental matters we may be required to address. In addition, we establish reserves for specifically identified potential environmental liabilities. We believe that the reserves we have established are adequate. Nevertheless, we often unavoidably inherit certain pre-existing environmental liabilities, generally based on successor liability doctrines. Although we have never been involved in any environmental matter that has had a material adverse impact on our overall operations, there can be no assurance that in connection with any past or future acquisition we will not be obligated to address environmental matters that could have a material adverse impact on our operations.

Employees

As of December 31, 2006, we employed approximately 27,000 full time employees, of whom approximately 88% were located outside the United States. Our future success is substantially dependent on our ability to attract and retain highly qualified technical and administrative personnel. Some of our employees outside the United States are members of trade unions, and employees at one small U.S. facility are represented by a union. Our relationship with our employees is generally good. However, no assurance can be given that, if we continue to restructure our operations in response to changing economic conditions, labor unrest or strikes will not occur.

Company Information and Website

We file annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (the Exchange Act). The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at Station Place, 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov.

In addition, our company website can be found on the Internet at www.vishay.com. The website contains information about us and our operations. Copies of each of our filings with the SEC on Form 10-K, Form 10-Q, and Form 8-K, and all amendments to those reports, can be viewed and downloaded free of charge as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. To view the reports, access ir.vishay.com and click on SEC Filings.

The following corporate governance related documents are also available on our website:

Corporate Governance Principles
Code of Business Conduct and Ethics
Code of Ethics Applicable to the Company s Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer or Controller and Financial Managers
Audit Committee Charter
Nominating and Corporate Governance Committee Charter
Compensation Committee Charter
Policy on Director Attendance at Annual Meetings
Nominating and Corporate Governance Committee Policy Regarding Qualification of Directors
Procedures for Securityholders Submissions of Nominating Recommendations
Securityholder Communications with Directors and Interested Party Communication with Non-Management Directors
Whistleblower and Ethics Hotline Procedures.

To view these documents, access ir.vishay.com and click on Corporate Governance.

Any of the above documents can also be obtained in print by any shareholder upon request to our Investor Relations Department at the following address:

Corporate Investor Relations
Vishay Intertechnology, Inc.
63 Lancaster Avenue
Malvern, PA 19355-2143

Item 1A. RISK FACTORS

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. Such statements involve a number of risks, uncertainties, and contingencies, many of which are beyond our control, which may cause actual results, performance or achievements to differ materially from those anticipated. Set forth below are important factors that could cause our results, performance, or achievements to differ materially from those in any forward-looking statements made by us or on our behalf:

Factors relating to our business generally

Our business is cyclical and the periods of decline in demand that we have experienced in the past may resume and may become more pronounced.

The electronic component and semiconductor industries are highly cyclical, and experience periods of decline from time to time. We and others in the electronic and semiconductor component industry have experienced these conditions in the recent past and cannot predict when we may experience such downturns in the future. A decline in product demand on a global basis could result in order cancellations and deferrals, lower average selling prices, and a material and adverse impact on our results of operations. These declines in demand are driven by market conditions in the end-use markets for our products. Changes in the demand mix, needed technologies and these end-use markets may adversely affect our ability to match our products, inventory and capacity to meet customer demand and could adversely affect our operating results and financial condition. The prospect of a slowdown in demand or recessionary trends in the global economy makes it more difficult for us to predict our future sales and manage our operations, and could adversely impact our results of operations.

We have incurred and may continue to incur restructuring costs and associated asset write-downs.

To remain competitive, particularly when business conditions are difficult, we attempt to reduce our cost structure through restructuring activities. This includes acquisition-related restructuring, where we attempt to streamline the operations of companies we acquire and achieve synergies between our acquisitions and our existing businesses. It also includes restructuring our existing businesses, where we seek to eliminate redundant facilities and staff positions and move operations, where possible, to jurisdictions with lower labor costs. We recorded restructuring and severance costs, plus related asset write-downs, in each of 2001, 2002, 2003, 2004, 2005, and 2006, and we expect to incur such expenses during 2007.

In the past we have grown through successful integration of acquired businesses, but this may not continue.

Our long-term historical growth in revenues and net earnings has resulted in large part from our strategy of expansion through acquisitions. We cannot assure you, however, that we will identify or successfully complete transactions with suitable acquisition candidates in the future. We also cannot assure you that acquisitions that we have recently completed or will complete in the future will be successful. If an acquired business fails to operate as anticipated or cannot be successfully integrated with our other businesses, our results of operations, enterprise value, market value and prospects could all be materially and adversely affected.

Our debt levels have increased, which could adversely affect the perception in the financial markets of our financial condition.

Our outstanding debt increased from approximately $141 million at the end of 2000 to approximately $612 million at the end of 2006, primarily due to our 2001 and 2002 acquisition activity. While our debt levels decreased in 2006, the marketplace could react negatively to our current debt levels which in turn could affect our share price and also make it more difficult for us to obtain financing in the future.

To remain successful, we must continue to innovate.

Our future operating results are dependent on our ability to continually develop, introduce and market new and innovative products, to modify existing products, to respond to technological change, and to customize certain products to meet customer requirements. There are numerous risks inherent in this process, including the risks that we will be unable to anticipate the direction of technological change or that we will be unable to develop and market new products and applications in a timely fashion to satisfy customer demands. If this occurs, we could lose customers and experience adverse effects on our financial condition and results of operations.

Our ability to compete effectively with other companies depends, in part, on our ability to maintain the proprietary nature of our technology.

Protection of intellectual property often involves complex legal and factual issues. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We have applied, and will continue to apply, for patents covering our technologies and products, as we deem appropriate. However, our applications may not result in issued patents. Also, our existing patents and any future patents may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Others may independently develop similar or alternative technologies, design around our patented technologies or may challenge or seek to invalidate our patents.

The electronic components industry, particularly the discrete semiconductor sector, is characterized by litigation regarding patent and other intellectual property rights. We have on occasion been notified that we may be infringing patent and other intellectual property rights of others. In addition, customers purchasing components from us have rights to indemnification under certain circumstances if such components violate the intellectual property rights of others. Further, we have observed that in the current electronic component and semiconductor industries business environment, companies have become more aggressive in asserting and defending patent claims against competitors. We will continue to vigorously defend our intellectual property rights, and may become party to disputes regarding patent licensing and cross patent licensing. Although licenses are generally offered in such situations and we have successfully resolved these situations in the past, there can be no assurance that we will not be subject to future litigation alleging intellectual property rights infringement, or that we will be able to obtain licenses on acceptable terms. An unfavorable outcome regarding one of these matters could have a material adverse effect on our business and operating results.

We have begun to invest in start-ups but our investments may not prove successful.

We believe that investment in new technologies that are related to our core businesses is important to position us for the future. Accordingly, we have begun a program of investing in technology start-up enterprises, in which we may acquire a controlling or non-controlling interest but whose technology would be available to be commercialized by us. There are numerous risks in investments of this nature including the limited operating history of such start-up entities, their need for capital, and their limited or absence of production experience, as well as the risk that their technologies may prove ineffective or fail to gain acceptance in the marketplace. There can be no assurance, therefore, that our investments in start-up enterprises will prove successful.

Future acquisitions could require us to issue additional indebtedness or equity.

If we were to undertake a substantial acquisition for cash, the acquisition would likely need to be financed in part through bank borrowings or the issuance of public or private debt. This acquisition financing would likely decrease our ratio of earnings to fixed charges and adversely affect other leverage criteria. Under our existing credit facility, we are required to obtain the lenders consent for certain additional debt financing and to comply with other covenants including the application of specific financial ratios. We are also restricted from paying cash dividends on our capital stock. We cannot assure you that the necessary acquisition financing would be available to us on acceptable terms if and when required. If we were to undertake an acquisition for equity, the acquisition may have a dilutive effect on the interests of the holders of our common stock.

Our reluctance to issue substantial additional shares in order not to dilute the interests of our existing shareholders could impede growth.

In the past, Vishay has grown through numerous acquisitions financed alternatively through cash on hand, the incurrence of indebtedness, and the issuance of equity, directly or indirectly by refinancing acquisition debt. At this time we believe that we are financially positioned to make acquisitions, even acquisitions of substantial size, without the issuance of additional equity, on the strength of our healthy cash flow and largely unleveraged balance sheet. However, we may in the future be presented with attractive investment or strategic opportunities that, because of their size and the financial condition of Vishay at the time, would require the issuance of substantial additional amounts of our common stock. If such opportunities were to arise, our Board of Directors would need to consider the potentially dilutive effect on the interests and voting power of our existing shareholders. In particular, our Board of Directors believes that it is in our best interest to ensure the continued vision and influence of our founder, Dr. Felix Zandman, over our corporate affairs. Dr. Zandman currently has effective voting control over Vishay through our Class B common stock, by direct ownership, a family trust, and a voting trust agreement, such that he has approximately 46% of our outstanding voting power. The reluctance to issue additional shares could impede our future growth.

Our results are sensitive to raw material availability, quality, and cost.

Many of our products require the use of raw materials that are produced in only a limited number of regions around the world or are available from only a limited number of suppliers. Our results of operations may be materially and adversely affected if we have difficulty obtaining these raw materials, the quality of available raw materials deteriorates, or there are significant price increases for these raw materials. For example, the prices for tantalum and palladium, two raw materials that we use in our capacitors, are subject to fluctuation. For periods in which the prices of these raw materials are rising, we may be unable to pass on the increased cost to our customers which would result in decreased margins for the products in which they are used. For periods in which the prices are declining, we may be required to write down our inventory carrying cost of these raw materials, since we record our inventory at the lower of cost or market. Depending on the extent of the difference between market price and our carrying cost, this write-down could have a material adverse effect on our net earnings. We recorded substantial write-downs of tantalum and palladium in the economic downturn from 2001 to 2003, and recorded more modest write-downs in 2004 and 2006.

From time to time there have been short-term market shortages of raw materials. While these shortages have not historically adversely affected our ability to increase production of products containing tantalum and palladium, they have historically resulted in higher raw material costs for us. We cannot assure you that any of these market shortages in the future would not adversely affect our ability to increase production, particularly during periods of growing demand for our products. Also, to assure availability of raw materials in time of shortage, we may enter into long-term supply contracts for these materials, which may prove unnecessary and burdensome when the shortage abates. This was the case with certain recently expired contracts for the supply of tantalum.

Our backlog is subject to customer cancellation.

Many of the orders that comprise our backlog may be canceled by our customers without penalty. Our customers may on occasion double and triple order components from multiple sources to ensure timely delivery when backlog is particularly long. They often cancel orders when business is weak and inventories are excessive, a situation that we have experienced during periods of economic slowdown. Therefore, we cannot be certain that the amount of our backlog does not exceed the level of orders that will ultimately be delivered. Our results of operations could be adversely impacted if customers cancel a material portion of orders in our backlog.

We face intense competition in our business, and we market our products to an increasingly concentrated group of customers.

Our business is highly competitive worldwide, with low transportation costs and few import barriers. We compete principally on the bases of product quality and reliability, availability, customer service, technological innovation, timely delivery, and price. The electronic component industry has become increasingly concentrated and globalized in recent years and our major competitors, some of which are larger than us, have significant financial resources and technological capabilities.

Our customers have become increasingly concentrated in recent years, and as a result, their buying power has increased and they have had greater ability to negotiate favorable pricing. This trend has adversely affected our average selling prices, particularly for commodity components.

We may not have adequate facilities to satisfy future increases in demand for our products.

Our business is cyclical and in periods of a rising economy, we may experience intense demand for our products. During such periods, we may have difficulty expanding our manufacturing to satisfy demand. Factors which could limit such expansion include delays in procurement of manufacturing equipment, shortages of skilled personnel, and physical constraints on expansion at our facilities. If we are unable to meet our customers requirements and our competitors sufficiently expand production, we could lose customers and/or market share. These losses could have an adverse effect on our financial condition and results of operations. Also, capacity that we add during upturns in the business cycle may result in excess capacity during periods when demand for our products recede, resulting in inefficient use of capital which could also adversely affect us.

Future changes in our environmental liability and compliance obligations may harm our ability to operate or increase costs.

Our manufacturing operations, products and/or product packaging are subject to environmental laws and regulations governing air emissions, wastewater discharges, the handling, disposal and remediation of hazardous substances, wastes and certain chemicals used or generated in our manufacturing processes, employee health and safety labeling or other notifications with respect to the content or other aspects of our processes, products or packaging, restrictions on the use of certain materials in or on design aspects of our products or product packaging, and responsibility for disposal of products or product packaging. We establish reserves for specifically identified potential environmental liabilities which we believe are adequate. Nevertheless, we often unavoidably inherit certain pre-existing environmental liabilities, generally based on successor liability doctrines. Although we have never been involved in any environmental matter that has had a material adverse impact on our overall operations, there can be no assurance that in connection with any past or future acquisition we will not be obligated to address environmental matters that could have a material adverse impact on our operations. In addition, more stringent environmental regulations may be enacted in the future, and we cannot presently determine the modifications, if any, in our operations that any such future regulations might require, or the cost of compliance with these regulations. In order to resolve liabilities at various sites, we have entered into various administrative orders and consent decrees, some of which may be, under certain conditions, reopened or subject to renegotiation.

Our products may experience a reduction in product classification levels under various military specifications.

We have qualified certain of our products under various military specifications approved and monitored by the United States Defense Electronic Supply Center, and under certain European military specifications. These products are assigned certain classification levels. In order to maintain the classification level of a product, we must continuously perform tests on the product and the results of these tests must be reported to governmental agencies. If any of our products fails to meet the requirements of the applicable classification level, that product s classification may be reduced to a lower level. A decrease in the classification level for any of our products with a military application could have an adverse impact on the net sales and earnings attributable to that product.

Our future success is substantially dependent on our ability to attract and retain highly qualified technical, managerial, marketing, finance, and administrative personnel.

Rapid changes in technologies, frequent new product introductions, and declining average selling prices over product life cycles require us to attract and retain highly qualified personnel to develop technological innovations and bring them to market on a timely basis. Our complex operations also require us to attract and retain highly qualified administrative personnel in functions such as legal, tax, accounting, financial reporting, auditing, and treasury. The market for personnel with such qualifications is highly competitive. While we have employment agreements with five of our executives, we have not entered into employment agreements with all of our key personnel.

The loss of the services of or the failure to effectively recruit qualified personnel could have a material adverse effect on our business.

Factors relating to Vishay s operations outside the United States

We obtain substantial benefits by operating in Israel, but these benefits may not continue.

We have increased our operations in Israel over the past several years. The low tax rates in Israel applicable to earnings of our operations in that country, compared to the rates in the United States, have had the general effect of increasing our net earnings, although this was not the case during 2002, 2003, and 2004 due to losses on purchase commitments. Also, we have benefited from employment incentive grants made by the Israeli government. There can also be no assurance that in the future the Israeli government will continue to offer new grant and tax incentive programs applicable to us or that, if it does, such programs will provide the same level of benefits we have historically received or that we will continue to be eligible to take advantage of them. Any significant increase in the Israeli tax rates or reduction or elimination of the Israeli grant programs that have benefited us could have an adverse impact on our results of operations.

We attempt to improve profitability by operating in countries in which labor costs are low, but the shift of operations to these regions may entail considerable expense.

Our strategy is aimed at achieving significant production cost savings through the transfer and expansion of manufacturing operations to and in countries with lower production costs, such as the Czech Republic, India, Israel, Malaysia, Mexico, the People s Republic of China, and the Philippines. During this process, we may experience under-utilization of certain plants and factories in high-labor-cost regions and capacity constraints in plants and factories located in low-labor-cost regions. This under-utilization may result initially in production inefficiencies and higher costs. These costs include those associated with compensation in connection with work force reductions and plant closings in the higher-labor-cost regions, and start-up expenses, manufacturing and construction delays, and increased depreciation costs in connection with the initiation or expansion of production in lower-labor-cost regions. In addition, as we implement transfers of certain of our operations we may experience strikes or other types of labor unrest as a result of lay-offs or termination of our employees in high-labor-cost countries.

We are subject to the risks of political, economic, and military instability in countries outside the United States in which we operate.

We have operations outside the United States, and approximately 74% of our revenues during 2006 were derived from sales to customers outside the United States. Some of the countries in which we operate have in the past experienced and may continue to experience political, economic, and military instability or unrest. These conditions could have an adverse impact on our ability to operate in these regions and, depending on the extent and severity of these conditions, could materially and adversely affect our overall financial condition and operating results. We have never experienced any material interruption in our Israeli operations in our 36 years of operations there, in spite of several Middle East crises, including wars. However, we might be adversely affected if events were to occur in the Middle East that interfered with our operations in Israel.

General Economic and Business Factors

In addition to the factors relating specifically to our business, a variety of other factors relating to general conditions could cause actual results, performance, or achievements to differ materially from those expressed in any of our forward-looking statements. These factors include:

- overall economic and business conditions;
- competitive factors in the industries in which we conduct our business;
- changes in governmental regulation;
- changes in tax requirements, including tax rate changes, new tax laws, and revised tax law interpretations;
- changes in generally accepted accounting principles or interpretations of those principles by governmental agencies and self-regulatory groups;
- interest rate fluctuations, foreign currency rate fluctuations, and other capital market conditions; and
- economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders.

Our common stock, traded on the New York Stock Exchange, has in the past experienced, and may continue to experience, significant fluctuations in price and volume. We believe that the financial performance and activities of other publicly traded companies in the electronic component and semiconductor industries could cause the price of our common stock to fluctuate substantially without regard to our operating performance.

We operate in a continually changing business environment, and new factors emerge from time to time. Other unknown and unpredictable factors also could have a material adverse effect on our future results, performance, or financial condition.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our business has approximately 62 manufacturing locations. Our manufacturing facilities include owned and leased locations. Some locations include both owned and leased facilities in the same location. The list of manufacturing facilities below excludes manufacturing facilities that are presently idle due to our restructuring activities. See Note 4 to our consolidated financial statements for further information related to our restructuring efforts, as well as additional information in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Cost Management.

The principal locations of our owned manufacturing facilities, along with available space including administrative offices, are as follows:

Owned Locations	Business Segment	Approx. Available Space (Square Feet)
United States		
Santa Clara, CA	Semiconductors	220,000
Columbus, NE	Passive Components	158,000
Wendell, NC	Passive Components	106,000
Monroe, CT	Passive Components	91,000
Malvern, PA	Passive Components	79,000
Yankton, SD	Passive Components	58,000
Warwick, RI	Passive Components	55,000
Bennington, VT	Passive Components	54,000
Grafton, WI	Passive Components	49,000
Niagara Falls, NY	Passive Components	38,000
Non-U.S.		
Israel (5 locations)	Semiconductors and Passive Components	1,008,000
People s Republic of China (3 locations)	Semiconductors and Passive Components	569,000
Czech Republic (4 locations)	Passive Components	490,000
Belgium (2 locations)	Passive Components	484,000
Republic of China (Taiwan) (3 locations)	Semiconductors and Passive Components	405,000
Germany (3 locations)	Semiconductors and Passive Components	339,000
Portugal	Passive Components	301,000
India	Passive Components	296,000
Netherlands	Passive Components	286,000
France (2 locations)	Passive Components	259,000
Austria	Semiconductors	153,000
Philippines	Passive Components	149,000
Hungary	Passive Components	116,000
Malaysia	Semiconductors	114,000
Mexico	Passive Components	57,000
Japan	Passive Components	45,000

The principal locations of our leased manufacturing facilities, along with available space including administrative offices, are as follows:

Leased Locations	Business Segment	Approx. Available Space (Square Feet)
United States		
City of Industry and Ontario, CA	Passive Components	123,000
Monroe, CT	Passive Components	26,000
Westbury, NY	Semiconductors	20,000
Yankton, SD	Passive Components	18,000
Non-U.S.		
People s Republic of China (5 locations)	Semiconductors and Passive Components	1,086,000
Mexico (3 locations)	Passive Components	192,000
Czech Republic	Passive Components	135,000
Austria	Passive Components	120,000
Brazil	Passive Components	97,000
Germany (2 locations)	Semiconductors	74,000
Israel (3 locations)	Semiconductors and Passive Components	53,000
Sweden	Passive Components	40,000
Netherlands	Passive Components	27,000
France	Passive Components	11,000
Republic of China (Taiwan)	Semiconductors	3,000
Costa Rica	Passive Components	3,000

In the opinion of management, our properties and equipment generally are in good operating condition and are adequate for our present needs. We do not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.

Item 3. LEGAL PROCEEDINGS

From time to time we are involved in routine litigation incidental to our business. Management believes that such matters, either individually or in the aggregate, should not have a material adverse effect on our business or financial condition.

Intellectual Property Matters

We are engaged in discussions with various parties regarding patent licensing and cross patent licensing issues. In addition, we have observed that in the current electronic component and semiconductor industry business environment, companies have become more aggressive in asserting and defending patent claims against competitors. We will continue to vigorously defend our intellectual property rights, and we may become party to disputes regarding patent licensing and cross patent licensing. An unfavorable outcome regarding one of these intellectual property matters could have a material adverse effect on our business and operating results.

When we believe other companies are misappropriating our intellectual property rights, we vigorously enforce those rights through legal action, and we intend to continue to do so. During the past few years, we settled several suits which we had initiated to enforce our intellectual property rights. We are receiving royalties on sales of these companies products which use our technology. We presently have other pending legal actions that we have initiated against companies which we believe are misappropriating our intellectual property rights.

Siliconix Shareholder Matters

Proctor Litigation

In January 2005, an amended class action complaint was filed in the Superior Court of California on behalf of all non-Vishay stockholders of Siliconix against Vishay, Ernst & Young LLP (the independent registered public accounting firm that audits the Company s financial statements), Dr. Felix Zandman, Chairman and Chief Technical and Business Development Officer of Vishay, and, as a nominal defendant, Siliconix. The suit purported to state various derivative and class claims against the defendants including the purported taking by Vishay of Siliconix sales subsidiaries and the profits of those subsidiaries; the purported taking by Vishay of Siliconix s SAP software system without compensation to Siliconix; the alleged use by Vishay of Siliconix s assets as security for Vishay loans without compensation to Siliconix; the purported misappropriation by Vishay of Siliconix s identity; the alleged taking by Vishay of Siliconix testing equipment; the alleged use by Vishay of Siliconix to save Vishay certain credits made available by an Israeli business development agency; the alleged misuse by Vishay of Siliconix s patents to help Vishay acquire General Semiconductor; and the allegedly improper identification of Dr. Zandman as a co-inventor on certain Siliconix patents. The action sought injunctive relief and unspecified damages.

In May 2005, Vishay successfully completed a tender offer to acquire all shares of Siliconix that were not already owned by Vishay. Following the announcement of Vishay s intent to make this tender offer, several purported class-action complaints were filed in the Delaware Court of Chancery. These actions were consolidated into a single class action. A settlement agreement was reached with the plaintiffs in that case, who effectively represented all non-Vishay shareholders of Siliconix. The settlement agreement was approved by the Delaware Court of Chancery in October 2005.

The Proctor plaintiffs filed an amended complaint in the Superior Court of California in November 2005. Vishay demurred to the complaint, primarily on the grounds that the plaintiffs lacked standing because of the nature of their claims and because they were no longer Siliconix shareholders. On March 7, 2006, the Superior Court of California rejected Vishay s demurer motion and required Vishay to answer the complaint. On May 25, 2006, Vishay filed its answer to the complaint, denying the allegations of the amended complaint and asserting various defenses. On June 13, 2006, the Delaware Court of Chancery issued an anti-suit injunction based on the settlement agreement that was reached in connection with the tender offer litigation filed by the Siliconix minority shareholders in Delaware. The injunction prevents the Proctor litigation from continuing. On July 10, 2006, a purported former shareholder filed a notice of appeal of the injunction order with the Supreme Court of Delaware. On January 24, 2007, the Supreme Court of Delaware dismissed this appeal. As a result, the permanent injunction issued by the Delaware Court of Chancery stands against the Proctor plaintiffs.

Environmental Matters

Vishay is involved in environmental remediation programs at various sites currently or formerly owned by Vishay and its subsidiaries, in addition to involvement as a potentially responsible party (PRP) at three Superfund sites. Certain obligations as a PRP have arisen in connection with business acquisitions. The remediation programs are on-going at three currently operating U.S. facilities, nine currently operating non-U.S. facilities, and six formerly owned U.S. sites.

The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of December 31, 2006, we concluded that our best estimate of remediation cost is $36.0 million, of which $29.8 million is included in other noncurrent liabilities on the consolidated balance sheet, and $6.2 million is included in accrued expenses on the consolidated balance sheet. Of the $36.0 million accrual, approximately $19.5 million is due to liabilities assumed in the acquisition of General Semiconductor; approximately $7.7 million is due to liabilities assumed in the acquisition of BCcomponents; and approximately $8.8 million is accrued for other miscellaneous environmental liabilities. In view of our financial position and provisions for environmental matters of $36.0 million, we have concluded that any potential payment of such estimated amounts will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information regarding our executive officers as of February 27, 2007:

Name	Age	Positions Held
Dr. Felix Zandman*	78	Chairman of the Board, Chief Technical and Business Development Officer
Dr. Gerald Paul*	58	Chief Executive Officer, President, and Director
Marc Zandman*	45	Vice-Chairman of the Board, Chief Administration Officer, and President-Vishay Israel Ltd.
Richard N. Grubb	60	Executive Vice President, Treasurer, and Chief Financial Officer
Ziv Shoshani*	41	Chief Operating Officer, Executive Vice President, and Director

* Member of the Executive Committee of the Board of Directors.

Dr. Felix Zandman, a founder of the Company, has been Chairman of the Board since 1989, and has been a Director of the Company since its inception in 1962. Dr. Zandman became Chief Technical and Business Development Officer on January 1, 2005. Dr. Zandman was Chief Executive Officer of the Company from its inception in 1962 through December 31, 2004, when Dr. Gerald Paul was appointed Chief Executive Officer. Dr. Zandman had been President of the Company from its inception through March 1998.

Dr. Gerald Paul was appointed Chief Executive Officer effective January 1, 2005. Dr. Paul has served as a Director of the Company since 1993, and has been President of the Company since March 1998. Dr. Paul also was Chief Operating Officer from 1996 to 2006. Dr. Paul previously was an Executive Vice President of the Company from 1996 to 1998, and President of Vishay Electronic Components, Europe from 1994 to 1996. Dr. Paul has been Managing Director of Vishay Electronic GmbH, a subsidiary of the Company, since 1991. Dr. Paul has been employed by Vishay and a predecessor company since 1978.

Marc Zandman was appointed Chief Administration Officer as of January 1, 2007. Mr. Zandman has been Vice-Chairman of the Board since 2003, a Director of the Company since 2001, and President of Vishay Israel Ltd. since 1998. Mr. Zandman was Group Vice President of Vishay Measurements Group from 2002 to 2004. Mr. Zandman has served in various other capacities with the Company since 1984. He is the son of Dr. Felix Zandman, the Company s Chairman and Chief Technical and Business Development Officer.

Richard N. Grubb has been Vice President, Treasurer, and Chief Financial Officer of the Company since 1994, and has been an Executive Vice President of the Company since 1996. Mr. Grubb has been associated with the Company in various capacities since 1975, and was a Director from 1994 to 2003.

Ziv Shoshani was promoted to the position of Chief Operating Officer effective January 1, 2007. During 2006, he was Deputy Chief Operating Officer. Mr. Shoshani has been Executive Vice President of the Company since 2000 with various areas of responsibility. Mr. Shoshani has been employed by the Company since 1995. He is the nephew of Dr. Felix Zandman, the Company s Chairman and Chief Technical and Business Development Officer.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange under the symbol VSH. The following table sets forth the high and low sales prices for our common stock as reported on the New York Stock Exchange composite tape for the indicated fiscal quarters. We do not currently pay cash dividends on our capital stock. Our policy is to retain earnings to support the growth of our business and we do not intend to change this policy at the present time. In addition, we are restricted from paying cash dividends under the terms of our revolving credit agreement. See Note 6 to our consolidated financial statements. Holders of record of our common stock totaled approximately 1,400 at February 23, 2007.

	2006			2005		
	High	Low		High	Low
Fourth quarter	$ 14.63	$ 12.61	Fourth quarter	$ 14.08	$ 10.77
Third quarter	$ 16.14	$ 12.79	Third quarter	$ 14.25	$ 11.47
Second quarter	$ 17.46	$ 13.97	Second quarter	$ 13.21	$ 10.50
First quarter	$ 16.64	$ 13.39	First quarter	$ 15.15	$ 11.96

At February 23, 2007, we had outstanding 14,358,361 shares of Class B common stock, par value $.10 per share, each of which entitles the holder to ten votes. The Class B common stock generally is not transferable except in certain very limited instances, and there is no market for those shares. The Class B common stock is convertible, at the option of the holder, into common stock on a share for share basis. Substantially all of the Class B common stock is owned by Dr. Felix Zandman, our Chairman and Chief Technical and Business Development Officer; a family trust controlled by Dr. Zandman and Mrs. Ruta Zandman, a director; the estate of Mrs. Luella B. Slaner, a former director; the children of Mrs. Slaner; and trusts for the benefit of the grandchildren of Mrs. Slaner, either directly or beneficially. Directly, through the family trust, and as voting trustee under a voting trust agreement, Dr. Zandman has sole or shared voting power over substantially all of the outstanding Class B common stock.

Stock Performance Graph

The line graph below compares the cumulative total stockholder return on Vishay s common stock over a 5-year period with the returns on the Standard & Poor s MidCap 400 Stock Index (of which Vishay is a component), the Standard & Poor s 500 Stock Index, and a peer group of companies selected by our management. The peer group is made up of six publicly-held manufacturers of semiconductors, resistors, capacitors, and other electronic components.* Management believes that the product offerings of the companies contained in the peer group are more similar to our product offerings than those of the companies contained in any published industry index. The return of each peer issuer has been weighted according to the respective issuer s stock market capitalization. The line graph assumes that $100 had been invested at December 31, 2001 and assumes that all dividends were reinvested.

	Year Ending December 31,					
Company Name/Index	**Base Period 2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Vishay Intertechnology, Inc.	100.0	57.33	117.44	77.03	70.56	69.44
S&P 500 Index	100.0	77.90	100.25	111.15	116.61	135.03
S&P MidCap 400 Index	100.0	85.49	115.94	135.05	152.00	167.69
Peer Group*	100.0	39.29	86.77	64.64	61.69	71.49

* AVX Corporation, EPCOS AG, Fairchild Semiconductor International Inc., International Rectifier Corporation, KEMET Corporation, and ON Semiconductor Corporation.

Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial information as of and for the fiscal years ended December 31, 2006, 2005, 2004, 2003, and 2002. This table should be read in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this Form 10-K *(in thousands, except per share amounts)*:

	As of and for the years ended December 31,				
	2006 (1)	**2005 (2)**	**2004 (3)**	**2003 (4)**	**2002 (5)**
Statement of Operations Data:					
Net revenues	$ 2,581,477	$ 2,296,521	$ 2,414,654	$ 2,170,597	$ 1,822,813
Interest expense	32,215	33,590	34,252	39,226	29,503
Earnings (loss) before income tax provision (benefit) and minority interest	191,550	77,772	70,017	46,426	(100,045)
Income tax provision (benefit)	50,836	11,737	13,729	11,528	(16,900)
Minority interest	978	3,761	11,592	8,056	9,469
Net earnings (loss)	139,736	62,274	44,696	26,842	(92,614)
Basic earnings (loss) per share	$ 0.76	$ 0.35	$ 0.27	$ 0.17	$ (0.58)
Diluted earnings (loss) per share	$ 0.73	$ 0.34	$ 0.27	$ 0.17	$ (0.58)
Weighted average shares outstanding basic	184,400	177,606	163,701	159,631	159,413
Weighted average shares outstanding diluted	210,316	189,321	165,938	160,443	159,413
Balance Sheet Data:					
Total assets	$ 4,691,896	$ 4,527,591	$ 4,638,590	$ 4,566,360	$ 4,315,159
Long-term debt	608,434	751,553	752,145	836,606	706,316