

Vishay Precision Group, Inc.  
Form 10-Q  
November 06, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 28, 2013**

**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 **1-34679**

**VISHAY PRECISION GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of Incorporation)

**27-0986328**

(I.R.S. Employer Identification Number)

**3 Great Valley Parkway, Suite 150**

**Malvern, PA 19355**

(Address of Principal Executive Offices) (Zip Code)

**484-321-5300**

(Registrant's Telephone Number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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As of November 6, 2013, the registrant had 12,709,042 shares of its common stock and 1,025,176 shares of its Class B convertible common stock outstanding.

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**VISHAY PRECISION GROUP, INC.**  
**FORM 10-Q**  
**September 28, 2013**

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## PART I - FINANCIAL INFORMATION

**Item 1. Financial Statements****VISHAY PRECISION GROUP, INC.**

Consolidated Condensed Balance Sheets

*(In thousands)*

|   | September 28,<br>2013<br><i>(Unaudited)</i> | December 31,<br>2012 |
|---|---|----------------------|
| <b>Assets</b>                             |   |                      |
| Current assets:                           |   |                      |
| Cash and cash equivalents                 | \$ 68,273                                   | \$ 93,881            |
| Accounts receivable, net                  | 37,030                                      | 28,766               |
| Inventories:                              |   |                      |
| Raw materials                             | 15,847                                      | 14,204               |
| Work in process                           | 19,655                                      | 13,696               |
| Finished goods                            | 19,398                                      | 21,489               |
| Inventories, net                          | 54,900                                      | 49,389               |
| Deferred income taxes                     | 3,992                                       | 4,258                |
| Prepaid expenses and other current assets | 13,861                                      | 9,572                |
| Total current assets                      | 178,056                                     | 185,866              |
| Property and equipment, at cost:          |   |                      |
| Land                                      | 1,979                                       | 2,023                |
| Buildings and improvements                | 47,371                                      | 47,627               |
| Machinery and equipment                   | 74,360                                      | 75,783               |
| Software                                  | 5,779                                       | 5,427                |
| Construction in progress                  | 1,666                                       | 1,788                |
| Accumulated depreciation                  | (81,913)                                    | (80,556)             |
| Property and equipment, net               | 49,242                                      | 52,092               |
| Goodwill                                  | 18,472                                      | -                    |
| Intangible assets, net                    | 23,827                                      | 8,009                |
| Other assets                              | 19,245                                      | 17,206               |
| Total assets                              | \$ 288,842                                  | \$ 263,173           |

*Continues on the following page.*

**VISHAY PRECISION GROUP, INC.**

Consolidated Condensed Balance Sheets (continued)

*(In thousands)*

|   | September 28,<br>2013<br><i>(Unaudited)</i> | December 31,<br>2012 |
|---|---|----------------------|
| <b>Liabilities and equity</b>                           |   |                      |
| Current liabilities:                                    |   |                      |
| Trade accounts payable                                  | \$ 8,501                                    | \$ 9,190             |
| Payroll and related expenses                            | 13,338                                      | 12,831               |
| Other accrued expenses                                  | 15,650                                      | 8,499                |
| Income taxes  | 7   | 1,425                |
| Current portion of long-term debt                       | 3,896                                       | 167                  |
| Total current liabilities                               | 41,392                                      | 32,112               |
| Long-term debt, less current portion                    | 24,029                                      | 11,154               |
| Deferred income taxes                                   | 1,183                                       | 1,831                |
| Other liabilities                                       | 7,707                                       | 7,433                |
| Accrued pension and other postretirement costs          | 12,734                                      | 13,835               |
| Total liabilities                                       | 87,045                                      | 66,365               |
| Commitments and contingencies                           |   |                      |
| Equity:   |   |                      |
| Common stock  | 1,271                                       | 1,235                |
| Class B convertible common stock                        | 103   | 103                  |
| Capital in excess of par value                          | 188,640                                     | 181,938              |
| Retained earnings                                       | 31,519                                      | 28,356               |
| Accumulated other comprehensive income (loss)           | (19,849)                                    | (14,983)             |
| Total Vishay Precision Group, Inc. stockholders' equity | 201,684                                     | 196,649              |
| Noncontrolling interests                                | 113   | 159                  |
| Total equity  | 201,797                                     | 196,808              |
| Total liabilities and equity                            | \$ 288,842                                  | \$ 263,173           |

*See accompanying notes.*

**VISHAY PRECISION GROUP, INC.**

## Consolidated Condensed Statements of Operations

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

|   | Fiscal quarter ended<br>September 28,<br>2013 | September 29,<br>2012 |
|---|---|-----------------------|
| Net revenues  | \$ 57,729                                     | \$ 55,430             |
| Costs of products sold                                      | 38,486  | 36,691                |
| Gross profit  | 19,243  | 18,739                |
| Selling, general, and administrative expenses               | 18,485  | 15,646                |
| Acquisition costs   | 57  | -                     |
| Restructuring costs   | 99  | -                     |
| Operating income  | 602   | 3,093                 |
| Other income (expense):                                     |   |                       |
| Interest expense  | (276)   | (75)                  |
| Other   | 210   | (295)                 |
| Other income (expense) - net                                | (66)  | (370)                 |
| Income before taxes   | 536   | 2,723                 |
| Income tax (benefit) expense                                | (919)   | 811                   |
| Net earnings  | 1,455   | 1,912                 |
| Less: net loss attributable to<br>noncontrolling interests  | (11)  | (30)                  |
| Net earnings attributable to VPG stockholders               | \$ 1,466                                      | \$ 1,942              |
| Basic earnings per share attributable to VPG stockholders   | \$ 0.11                                       | \$ 0.15               |
| Diluted earnings per share attributable to VPG stockholders | \$ 0.11                                       | \$ 0.14               |
| Weighted average shares outstanding - basic                 | 13,734  | 13,371                |
| Weighted average shares outstanding - diluted               | 13,944  | 13,893                |

*See accompanying notes.*

**VISHAY PRECISION GROUP, INC.**

## Consolidated Condensed Statements of Operations

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

|  | Nine fiscal months ended |                       |
|--|--------------------------|-----------------------|
|  | September 28,<br>2013    | September 29,<br>2012 |
| Net revenues   | \$ 178,027               | \$ 166,606            |
| Costs of products sold   | 117,255                  | 109,136               |
| Gross profit   | 60,772                   | 57,470                |
| Selling, general, and administrative expenses                  | 54,847                   | 47,923                |
| Acquisition costs  | 752                      | -                     |
| Restructuring costs  | 487                      | -                     |
| Operating income   | 4,686                    | 9,547                 |
| Other income (expense):  |                          |                       |
| Interest expense   | (771)                    | (216)                 |
| Other  | (1,073)                  | 15                    |
| Other income (expense) - net                                   | (1,844)                  | (201)                 |
| Income before taxes  | 2,842                    | 9,346                 |
| Income tax (benefit) expense                                   | (339)                    | 2,796                 |
| Net earnings   | 3,181                    | 6,550                 |
| Less: net earnings attributable to<br>noncontrolling interests | 18                       | 24                    |
| Net earnings attributable to VPG stockholders                  | \$ 3,163                 | \$ 6,526              |
| Basic earnings per share attributable to VPG stockholders      | \$ 0.23                  | \$ 0.49               |
| Diluted earnings per share attributable to VPG stockholders    | \$ 0.23                  | \$ 0.47               |
| Weighted average shares outstanding - basic                    | 13,504                   | 13,366                |
| Weighted average shares outstanding - diluted                  | 13,940                   | 13,881                |

*See accompanying notes.*



**VISHAY PRECISION GROUP, INC.**

Consolidated Condensed Statements of Comprehensive Income (Loss)

(Unaudited - In thousands)

|   | Fiscal quarter ended<br>September 28,<br>2013 | September 29,<br>2012 |
|---|---|-----------------------|
| Net earnings  | \$ 1,455                                      | \$ 1,912              |
| Other comprehensive income (loss):                                |   |                       |
| Foreign currency translation adjustment                           | 1,715   | 3,505                 |
| Pension and other postretirement actuarial items, net of tax      | (59)  | (55)                  |
| Other comprehensive income  | 1,656   | 3,450                 |
| Comprehensive income  | 3,111   | 5,362                 |
| Less: comprehensive loss attributable to noncontrolling interests | (11)  | (30)                  |
| Comprehensive income attributable to VPG stockholders             | \$ 3,122                                      | \$ 5,392              |

See accompanying notes.

**VISHAY PRECISION GROUP, INC.**

## Consolidated Condensed Statements of Comprehensive Income (Loss)

*(Unaudited - In thousands)*

|   | Nine fiscal months ended<br>September 28,<br>2013 | September 29,<br>2012 |
|---|---|-----------------------|
| Net earnings  | \$ 3,181  | \$ 6,550              |
| Other comprehensive income (loss):                                  |   |                       |
| Foreign currency translation adjustment                             | (5,086)   | 1,603                 |
| Pension and other postretirement actuarial items, net of tax        | 220   | 18                    |
| Other comprehensive (loss) income                                   | (4,866)   | 1,621                 |
| Comprehensive (loss) income   | (1,685)   | 8,171                 |
| Less: comprehensive income attributable to noncontrolling interests | 18  | 24                    |
| Comprehensive (loss) income attributable to VPG stockholders        | \$ (1,703)  | \$ 8,147              |

*See accompanying notes.*

**VISHAY PRECISION GROUP, INC.**

## Consolidated Condensed Statements of Cash Flows

(Unaudited - In thousands)

|  | Nine fiscal months ended<br>September 28,<br>2013 | September 29,<br>2012 |
|--|---|-----------------------|
| <b>Operating activities</b>  |   |                       |
| Net earnings   | \$ 3,181  | \$ 6,550              |
| Adjustments to reconcile net earnings to<br>net cash provided by operating activities: |   |                       |
| Depreciation and amortization  | 9,016   | 8,727                 |
| (Gain) loss on disposal of property and equipment                                      | (27)  | 219                   |
| Share-based compensation expense   | 929   | 866                   |
| Inventory write-offs for obsolescence  | 901   | 996                   |
| Other  | (3,214)   | (537)                 |
| Net changes in operating assets and liabilities, net of acquisitions:                  |   |                       |
| Accounts receivable  | (3,031)   | 991                   |
| Inventories  | 4,909   | (945)                 |
| Prepaid expenses and other current assets  | (2,997)   | (1,126)               |
| Trade accounts payable   | (1,504)   | (1,345)               |
| Other current liabilities  | (2,013)   | (878)                 |
| Net cash provided by operating activities  | 6,150   | 13,518                |
| <b>Investing activities</b>  |   |                       |
| Capital expenditures   | (3,910)   | (5,805)               |
| Proceeds from sale of property and equipment   | 76  | 271                   |
| Purchase of business   | (48,919)  | -                     |
| Net cash used in investing activities  | (52,753)  | (5,534)               |
| <b>Financing activities</b>  |   |                       |
| Proceeds from long-term debt   | 25,000  | -                     |
| Principal payments on long-term debt and capital leases                                | (2,362)   | (136)                 |
| Debt issuance costs  | (384)   | -                     |
| Distributions to noncontrolling interests  | (64)  | (50)                  |
| Net cash provided by (used in) financing activities                                    | 22,190  | (186)                 |
| Effect of exchange rate changes on cash and cash equivalents                           | (1,195)   | 624                   |
| (Decrease) increase in cash and cash equivalents                                       | (25,608)  | 8,422                 |
| Cash and cash equivalents at beginning of period                                       | 93,881  | 80,828                |
| Cash and cash equivalents at end of period   | \$ 68,273   | \$ 89,250             |
| <b>Supplemental disclosure of non-cash financing transactions:</b>                     |   |                       |
| Conversion of exchangeable notes to common stock                                       | \$ 5,861  | \$ -                  |

See accompanying notes.

**VISHAY PRECISION GROUP, INC.**

## Consolidated Condensed Statement of Equity

*(Unaudited - In thousands, except share amounts )*

|  | Common<br>Stock | Class B<br>Convertible<br>Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total VPG Inc.<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|--|-----------------|---|--------------------------------------|----------------------|--|---|-----------------------------|-----------------|
| Balance at December 31, 2012   | \$ 1,235        | \$ 103                                    | \$ 181,938                           | \$ 28,356            | \$ (14,983)  | \$ 196,649                                | \$ 159                      | \$ 196,808      |
| Net earnings   | -               | -   | -                                    | 3,163                | -  | 3,163                                     | 18                          | 3,181           |
| Other comprehensive income (loss)  | -               | -   | -                                    | -                    | (4,866)  | (4,866)                                   | -                           | (4,866)         |
| Share-based compensation expense   | -               | -   | 619                                  | -                    | -  | 619                                       | -                           | 619             |
| Restricted stock<br>issuances (103,633 shares)                                     | 10              | -   | 248                                  | -                    | -  | 258                                       | -                           | 258             |
| Common stock issuance from<br>conversion of exchangeable<br>notes (259,687 shares) | 26              | -   | 5,835                                | -                    | -  | 5,861                                     | -                           | 5,861           |
| Distributions to<br>noncontrolling interests                                       | -               | -   | -                                    | -                    | -  | -   | (64)                        | (64)            |
| Balance at September 28, 2013  | \$ 1,271        | \$ 103                                    | \$ 188,640                           | \$ 31,519            | \$ (19,849)  | \$ 201,684                                | \$ 113                      | \$ 201,797      |

*See accompanying notes.*

**Vishay Precision Group, Inc.****Notes to Unaudited Consolidated Condensed Financial Statements****Note 1 Basis of Presentation****Background**

Vishay Precision Group, Inc. ( VPG or the Company ) is an internationally recognized designer, manufacturer and marketer of components based on resistive foil technology, sensors, and sensor-based systems specializing in the growing markets of stress, force, weight, pressure, and current measurements. The Company provides vertically integrated products and solutions that are primarily based upon its proprietary foil technology. These products are marketed under a variety of brand names that the Company believes are characterized as having a very high level of precision and quality. VPG's global operations enable it to produce a wide variety of products in strategically effective geographical locations that also optimize its resources for specific technologies, sensors, assemblies and systems.

**Interim Financial Statements**

These unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for interim financial statements and therefore do not include all information and footnotes necessary for the presentation of financial position, results of operations, and cash flows required by accounting principles generally accepted in the United States for complete financial statements. The information furnished reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair summary of the financial position, results of operations, and cash flows for the interim periods presented. These financial statements should be read in conjunction with the combined and consolidated financial statements and notes thereto as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in VPG's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on March 12, 2013. The results of operations for the fiscal quarter and nine fiscal months ended September 28, 2013 are not necessarily indicative of the results to be expected for the full year.

VPG reports interim financial information for 13-week periods beginning on a Sunday and ending on a Saturday, except for the first quarter, which always begins on January 1, and the fourth quarter, which always ends on December 31. The four fiscal quarters in 2013 and 2012 end on the following dates:

|           | 2013           | 2012           |
|-----------|----------------|----------------|
| Quarter 1 | March 30th     | March 31st     |
| Quarter 2 | June 29th      | June 30th      |
| Quarter 3 | September 28th | September 29th |
| Quarter 4 | December 31st  | December 31st  |

**Recent Accounting Pronouncements**

In July 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2012-02, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. Under the revised guidance, when testing an indefinite-lived intangible asset for impairment, the Company has the option of performing a qualitative assessment before calculating the fair value of the asset. If the Company determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not impaired, the Company would not need to calculate the fair value of the asset. The ASU does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the ASU does not amend the requirement to test these assets for impairment between annual tests if there is a change in events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods. The adoption of the ASU had no effect on the Company's consolidated financial position, results of operations, or cash flows.

**Note 1 Basis of Presentation(continued)****Recent Accounting Pronouncements (continued)**

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires disclosure about amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement of operations or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. ASU 2013-02 is to be applied prospectively and is effective for fiscal years and interim periods beginning after December 15, 2012, or in the first quarter of fiscal year 2013 for the Company. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

**Note 2 Related Party Transactions**

Until July 6, 2010, VPG was part of Vishay Intertechnology, and the assets and liabilities consisted of those that Vishay Intertechnology attributed to its precision measurement and foil resistor businesses. Following the spin-off on July 6, 2010, VPG is an independent, publicly-traded company, and Vishay Intertechnology does not retain any ownership interest in VPG.

**Shared Facilities**

VPG and Vishay Intertechnology shared certain manufacturing and administrative sites. Costs were allocated based on relative usage of the respective facilities.

Subsequent to the spin-off, VPG and Vishay Intertechnology continue to share certain manufacturing locations. VPG owns one location in Japan at which it leases space to Vishay Intertechnology. Vishay Intertechnology owns one location in Israel and one location in the United States, at each of which it leases space to VPG.

**Commitments, Contingencies, and Concentrations***Relationships with Vishay Intertechnology after Spin-Off*

In connection with the spin-off, on July 6, 2010, the Company and its subsidiaries entered into several agreements with Vishay Intertechnology and its subsidiaries that govern the relationship of the parties following the spin-off.

*Transition Services Agreement*

Pursuant to the Transition Services Agreement, Vishay Intertechnology provided VPG with certain information technology support services for its foil resistor business. The Transition Services Agreement terminated on March 1, 2012.

*Lease Agreements*

Subsequent to the spin-off, VPG and Vishay Intertechnology continue to share certain manufacturing locations.

Future minimum lease payments by VPG for these facilities are estimated as follows (*in thousands*):

|                   |    |     |
|-------------------|----|-----|
| Remainder of 2013 | \$ | 32  |
| 2014              |    | 129 |
| 2015              |    | 65  |
| Thereafter        |    | -   |

Future minimum lease receipts from Vishay Intertechnology for these shared facilities are estimated as follows (*in thousands*):

|                   |    |   |
|-------------------|----|---|
| Remainder of 2013 | \$ | 9 |
|-------------------|----|---|

|            |    |
|------------|----|
| 2014       | 39 |
| 2015       | 19 |
| Thereafter | -  |

**Note 3 Acquisition Activity**

On December 18, 2012, the Company and its indirectly wholly owned subsidiary, Vishay Precision Group Canada ULC ( VPG Canada ), entered into an asset purchase agreement to acquire substantially all of the assets of the George Kelk Corporation ( KELK ), a privately held company based in Toronto, Canada. On January 31, 2013, the Company and VPG Canada completed the acquisition for an aggregate purchase price of approximately \$49.0 million (CDN) (\$49.0 million USD), subject to working capital and other adjustments. The acquisition was financed using a combination of cash on hand as well as borrowings under the Company's amended and restated credit agreement (see Note 7). KELK engineers, designs and manufactures highly accurate electronic measurement and control equipment used by metals rolling mills and mining applications throughout the world. This acquisition expands the Company's geographic and end market strength in the metals measurement processing market and adds new products to the Company's Weighing and Control Systems reporting segment. For financial reporting purposes, the results of operations for this business have been included in the Weighing and Control Systems reporting segment beginning February 1, 2013. The amount of net revenues and net losses of VPG Canada included in the consolidated condensed statements of operations were as follows (*in thousands*):

|  | <b>Fiscal<br/>quarter<br/>ended<br/>September<br/>28,<br/>2013</b> | <b>Nine fiscal<br/>months<br/>ended<br/>September<br/>28,<br/>2013</b> |
|--|--|--|
| Net revenues   | \$ 8,196   | \$ 24,214  |
| Net earnings (loss) attributable to VPG stockholders (1) | \$ 386   | \$ (684)   |

- (1) The net earnings (loss) attributable to VPG stockholders includes the effect of purchase accounting adjustments, acquisition costs, restructuring costs, and intercompany interest expense.

The following table summarizes the preliminary fair values assigned to the assets and liabilities as of the January 31, 2013 acquisition date. These amounts are determined based upon certain valuations and studies that have yet to be finalized, and accordingly, the assets acquired and liabilities assumed are subject to adjustment once the detailed analyses are finalized. The amounts presented have been updated from the first quarter of 2013, but remain preliminary (*in thousands*):

|  | <b>As<br/>originally<br/>reported<br/>January<br/>31, 2013</b> | <b>Adjustments</b> | <b>January<br/>31, 2013</b> |
|--|--|--------------------|-----------------------------|
| Working capital (1)                        | \$ 4,300   | \$ 4,300           | \$ 8,600                    |
| Property and equipment                     | 2,100  | -                  | 2,100                       |
| Intangible assets:                         |  |                    |                             |
| Patents and acquired technology            | 3,200  | 2,100              | 5,300                       |
| Non-competition agreements                 | 100  | 100                | 200                         |
| Customer relationships                     | 14,300   | (2,100)            | 12,200                      |
| Trade names                                | 1,600  | -                  | 1,600                       |
| Total intangible assets                    | 19,200   | 100                | 19,300                      |
| Fair value of acquired identifiable assets | 25,600   | 4,400              | 30,000                      |
| Purchase price                             | \$ 50,000  | \$ (1,000)         | \$ 49,000                   |
| Goodwill                                   | \$ 24,400  | \$ (5,400)         | \$ 19,000                   |

- (1) Working capital accounts include accounts receivable, inventory, prepaid expenses and other current assets, trade accounts payable, accrued payroll and other accrued expenses.

The table above reflects adjustments to the preliminary purchase price allocation as originally reported in the Form 10-Q at March 30, 2013. These adjustments were retrospectively applied to the Company's consolidated condensed balance sheet. During the second quarter of 2013, the Company recast its first quarter operating results to reflect these adjustments. The impact was an increase in the costs of products sold during the first quarter of \$1.2 million.





**Note 3 Acquisition Activity (continued)**

The purchase price allocation for KELK continues to be evaluated. As the Company finalizes the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period. Fair value estimates are based on a complex series of judgments about future events and uncertainties, and rely heavily on estimates and assumptions. The finalization of the purchase accounting assessment may result in additional changes in the valuation of assets acquired and liabilities assumed and may have a material impact on the Company's results of operations.

The change in the carrying amount of goodwill is as follows (*in thousands*):

|   |    |        |
|---|----|--------|
| Balance at January 1, 2013                | \$ | -      |
| Goodwill acquired in the KELK acquisition |    | 19,000 |
| Foreign currency translation adjustment   |    | (528)  |
| Balance at September 28, 2013             | \$ | 18,472 |

The preliminary weighted average useful lives for patents and acquired technology, non-competition agreements and customer relationships are 17, 5, and 18 years, respectively. Trade names are treated as indefinite-lived intangible assets. The Company will test trade names for impairment at least annually, in accordance with U.S. generally accepted accounting principles (GAAP).

Seventy-five percent of the goodwill associated with this transaction is deductible for income tax purposes. The Company will test the goodwill for impairment at least annually, in accordance with U.S. GAAP.

The Company recorded acquisition costs in its consolidated condensed statement of operations as follows (*in thousands*):

|                           | <b>Fiscal<br/>quarter<br/>ended<br/>September<br/>28,<br/>2013</b> | <b>Nine fiscal<br/>months<br/>ended<br/>September<br/>28,<br/>2013</b> |
|---------------------------|--|--|
| Accounting and legal fees | \$ 57  | \$ 610   |
| Appraisal fees            | -  | 84   |
| Other                     | -  | 58   |
|                           | \$ 57  | \$ 752   |

The following unaudited pro forma summary financial information presents the operating results of the combined company, assuming the acquisition had occurred as of January 1, 2012 (*in thousands, except per share amounts*):

|   | <b>Fiscal quarter ended</b>       |                                   | <b>Nine fiscal months ended</b>   |                                   |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|   | <b>September<br/>28,<br/>2013</b> | <b>September<br/>29,<br/>2012</b> | <b>September<br/>28,<br/>2013</b> | <b>September<br/>29,<br/>2012</b> |
| Pro forma net revenues  | \$ 57,729                         | \$ 62,216                         | \$ 181,578                        | \$ 188,783                        |
| Pro forma net earnings attributable to VPG stockholders               | \$ 2,577                          | \$ 1,919                          | \$ 7,569                          | \$ 6,903                          |
| Pro forma basic earnings per share attributable to VPG stockholders   | \$ 0.19                           | \$ 0.14                           | \$ 0.56                           | \$ 0.52                           |
| Pro forma diluted earnings per share attributable to VPG stockholders | \$ 0.18                           | \$ 0.14                           | \$ 0.54                           | \$ 0.50                           |

**Note 3 Acquisition Activity (continued)**

The pro forma information presented for the fiscal quarter and nine fiscal months ended September 28, 2013 include adjustments for acquisition costs, restructuring costs, and the fair market value adjustments associated with inventory and advance customer payments. The pro forma information presented for the fiscal quarter and nine fiscal months ended September 29, 2012 includes adjustments for interest expense that would have been incurred to finance the acquisition, the amortization of intangible assets, acquisition costs and the fair market value adjustments associated with inventory and advance customer payments. The unaudited pro forma results are not necessarily indicative of the results that would have been attained had the acquisition occurred on January 1, 2012.

**Note 4 Intangible Assets**

Intangible assets were as follows (*in thousands*):

|  | September 28,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| <b>Intangible assets subject to amortization</b>     |                       |                      |
| (Definite-lived):                                    |                       |                      |
| Patents and acquired technology                      | \$ 9,176              | \$ 4,104             |
| Customer relationships                               | 18,309                | 6,587                |
| Trade names  | 1,875                 | 1,998                |
| Non-competition agreements                           | 13,252                | 14,462               |
|  | <b>42,612</b>         | <b>27,151</b>        |
| Accumulated amortization:                            |                       |                      |
| Patents and acquired technology                      | (3,136)               | (2,908)              |
| Customer relationships                               | (5,466)               | (4,736)              |
| Trade names  | (1,717)               | (1,736)              |
| Non-competition agreements                           | (10,018)              | (9,762)              |
|  | <b>(20,337)</b>       | <b>(19,142)</b>      |
| Net intangible assets subject to amortization        | <b>22,275</b>         | <b>8,009</b>         |
| <b>Intangible assets not subject to amortization</b> |                       |                      |
| (Indefinite-lived):                                  |                       |                      |
| Trade names  | 1,552                 | -                    |
|  | <b>\$ 23,827</b>      | <b>\$ 8,009</b>      |

The increase in net intangible assets from December 31, 2012 is due to the acquisition of the KELK business on January 31, 2013. The Company has preliminarily allocated \$17.7 million of the purchase price to definite-lived intangible assets and \$1.6 million to indefinite-lived intangible assets. Amortization expense for the fiscal quarters ended September 28, 2013 and September 29, 2012 was \$0.8 million and \$0.7 million, respectively. Amortization expense for the nine fiscal months ended September 28, 2013 and September 29, 2012 was \$2.3 million and \$2.2 million, respectively. The KELK intangible assets accounted for \$0.3 million of amortization expense for the fiscal quarter ended September 28, 2013 and \$0.7 million of amortization expense for the nine fiscal months ended September 28, 2013.

Estimated annual amortization expense for the full year of 2013 and each of the next four years is as follows (*in thousands*):

|      |          |
|------|----------|
| 2013 | \$ 3,112 |
| 2014 | 2,802    |
| 2015 | 2,474    |
| 2016 | 1,630    |
| 2017 | 1,634    |

**Note 5 Restructuring Costs**

Restructuring costs reflect the cost reduction programs implemented by the Company. Restructuring costs are expensed during the period in which the Company determines it will incur those costs and all requirements for accrual are met. Because these costs are recorded based upon estimates, actual expenditures for the restructuring activities may differ from the initially recorded costs. If the initial estimates are too low or too high, the Company could be required to either record additional expense in future periods or to reverse part of the previously recorded charges.

The Company recorded restructuring costs of \$0.1 million during the fiscal quarter ended September 28, 2013. These costs were comprised of employee termination costs, including severance and a statutory retirement allowance at KELK and were incurred in connection with a cost reduction in one of the manufacturing areas. The restructuring costs were fully paid during the third quarter of 2013.

The Company recorded restructuring costs of \$0.4 million during the fiscal quarter ended March 30, 2013. These costs were comprised of employee termination costs, including severance and a statutory retirement allowance, covering 16 technical, production and administrative employees at one of the Company's subsidiaries in Japan. The restructuring was undertaken primarily in response to the declining business conditions in Japan. The restructuring costs were fully paid during the second quarter of 2013.

**Note 6 Income Taxes**

VPG calculates the tax provision for interim periods using an estimated annual effective tax rate methodology which is based on a current projection of full-year earnings before taxes amongst different taxing jurisdictions and adjusted for the impact of discrete quarterly items. The effective tax rate for the fiscal quarter ended September 28, 2013 was (171.5)% versus 29.8% for the fiscal quarter ended September 29, 2012. The effective tax rate for the nine fiscal months ended September 28, 2013 was (11.9)% versus 29.9% for the nine fiscal months ended September 29, 2012. The primary change in the effective tax rate for both periods presented is the result of the recording of discrete items coupled with changes in the geographic mix of pretax earnings. For the fiscal quarter ending September 28, 2013, the Company recorded a net discrete tax benefit associated with changes in statutory tax rates and foreign exchange variations. In July, a new tax law was enacted in Israel which effectively increases the corporate income tax rate on certain types of income earned after January 1, 2014. Accordingly, the Company's net deferred tax assets in Israel were increased to reflect the higher rate which allowed the recording of a one-time benefit of \$1.3 million.

Income taxes for VPG for the fiscal quarters and nine fiscal months ended September 28, 2013 and September 29, 2012, as presented in these consolidated condensed financial statements, are calculated on a separate tax return basis.

The provision for income taxes consists of provisions for federal, state, and foreign income taxes. The effective tax rates for the fiscal quarters and nine fiscal months ended September 28, 2013 and September 29, 2012 reflect VPG's expected tax rate on reported income before income tax and tax adjustments. VPG operates in an international environment with significant operations in various locations outside the United States. Accordingly, the consolidated income tax rate is a composite rate reflecting VPG's earnings and the applicable tax rates in the various locations in which VPG operates.

The Company and its subsidiaries are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. VPG establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when VPG believes that certain positions might be challenged despite its belief that the tax return positions are supportable. VPG adjusts these reserves in light of changing facts and circumstances and the provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. Penalties and tax-related interest expense are reported as a component of income tax expense. The Company anticipates \$0.1 million to \$0.3 million of unrecognized tax benefits to be reversed within the next twelve months of the reporting date, due to the expiration of statute of limitations in certain jurisdictions.

**Note 7 Long-Term Debt**

Long-term debt consists of the following (*in thousands*):

|  | September<br>28,<br>2013 | December<br>31,<br>2012 |
|--|--------------------------|-------------------------|
| 2013 credit agreement - revolving facility     | \$ -                     | \$ -                    |
| 2013 credit agreement - U.S. term facility     | 8,500                    | -                       |
| 2013 credit agreement - Canadian term facility | 14,250                   | -                       |
| U.S. credit facility - revolving debt (1)      | -                        | -                       |
| Israeli credit facility - revolving debt (2)   | -                        | -                       |
| Exchangeable unsecured notes, due 2102         | 4,097                    | 9,958                   |
| Other debt                                     | 1,078                    | 1,363                   |
|  | 27,925                   | 11,321                  |
| Less current portion                           | 3,896                    | 167                     |
|  | \$ 24,029                | \$ 11,154               |

- (1) Through December 31, 2012, multi-currency revolving facility with interest payable at agent's prime rate, the Federal Funds rate or LIBOR, adjusted by an interest rate margin of 0.00% to 2.75% per annum, depending on the Company's leverage ratio. This facility was amended and restated on January 29, 2013, as described below.
- (2) Multi-currency revolving facility with interest payable at LIBOR plus an interest rate margin of 2.15% per annum.

**2013 Credit Agreement**

On January 29, 2013, the Company entered into an Amended and Restated Credit Agreement (the *2013 Credit Agreement*) among the Company, VPG Canada, the lenders party thereto, RBS Citizens, National Association as joint book-runner and JPMorgan Chase Bank, National Association as agent for such lenders (the *Agent*), pursuant to which the terms of the Company's multi-currency, secured credit facility was revised and expanded to provide for the following facilities: (1) a secured revolving facility in an aggregate principal amount of \$15.0 million (the *2013 Revolving Facility*), the proceeds of which may be used for general corporate purposes, with sublimits of (i) \$10.0 million which can be used for letters of credit for the account of the Company or VPG Canada, and (ii) up to \$5.0 million which can be used for loans outstanding for up to 5 business days (*Swing Loans*); (2) a secured term facility for the Company, the proceeds of which are to be loaned by the Company to its subsidiaries to fund the KELK acquisition, in an aggregate principal amount of \$10.0 million (the *U.S. Term Facility*); and (3) a secured term facility for VPG Canada in an aggregate principal amount of \$15.0 million (the *Canadian Term Facility*). The aggregate principal amount of the 2013 Revolving Facility may be increased by a maximum of \$10.0 million upon the request of the Company, subject to the terms of the 2013 Credit Agreement. The 2013 Credit Agreement terminates on January 29, 2018. The term loans are being repaid in quarterly installments.

Interest payable on amounts borrowed under the 2013 Revolving Facility (other than with respect to Swing Loans), the U.S. Term Facility and the Canadian Term Facility (collectively, the *Facilities*) is based upon, at the Company's option, (1) the Agent's prime rate, the Federal Funds Rate, or a LIBOR floor (the *Base Rate*), or (2) LIBOR plus a specified margin. An interest margin of 0.25% is added to Base Rate loans. Depending upon the Company's leverage ratio, an interest rate margin ranging from 2.00% to 3.00% per annum is added to the applicable Base Rate or LIBOR rate to determine the interest payable on the Facilities. The Company is required to pay a quarterly fee of 0.30% per annum to 0.50% per annum on the unused portion of the 2013 Revolving Facility, which is determined based on the Company's leverage ratio each quarter. Additional customary fees apply with respect to letters of credit.

**Note 7 Long-Term Debt (continued)**

**2013 Credit Agreement (continued)**

The obligations of the Company under the 2013 Credit Agreement are secured by pledges of stock in certain domestic and foreign subsidiaries, as well as guarantees by substantially all of the Company's domestic subsidiaries. The obligations of the Company and the guarantors under the 2013 Credit Agreement are secured by substantially all the assets (excluding real estate) of the Company and such guarantors. The Canadian Term Facility is secured by substantially all the assets of VPG Canada and by a secured guarantee by the Company and its domestic subsidiaries. The 2013 Credit Agreement restricts the Company from paying cash dividends and requires the Company to comply with other customary covenants, representations and warranties, including the maintenance of specific financial ratios. The financial maintenance covenants include (a) a tangible net worth of not less than \$118.0 million, plus 50% of cumulative net earnings for each fiscal quarter since inception, excluding quarterly net losses; (b) a leverage ratio of not more than 2.5 to 1.0; and (c) a fixed charges coverage ratio of not less than 1.5 to 1.0. The Company was in compliance with its financial maintenance covenants at September 28, 2013. If the Company is not in compliance with any of these covenant restrictions, the credit facility could be terminated by the lenders, and all amounts outstanding pursuant to the credit facility could become immediately payable.

**Israeli Credit Facility**

Vishay Advanced Technologies Ltd. ( VAT ), an Israeli company and subsidiary of the Company, entered into a Credit Agreement (the Credit Agreement ) with HSBC Bank Plc (the Lender ) in November 2011 securing a multi-currency, secured revolving facility in an aggregate principal amount of \$15.0 million (the VAT Revolving Facility ). The VAT Revolving Facility was amended on June 27, 2013 to revise certain covenants and the quarterly commitment fee paid on the unused portion of the facility. All other terms of the facility remained unchanged. The VAT Revolving Facility terminates on November 30, 2014. There was no balance outstanding on this facility at September 28, 2013 or December 31, 2012.

Interest payable on the VAT Revolving Facility is based upon LIBOR ( VAT Base Rate ). An interest rate margin of 2.15% per annum is added to the VAT Base Rate to determine the interest payable on the VAT Revolving Facility. VAT paid a one-time fee on the commitment and, as amended, is required to pay a quarterly fee of 0.40% per annum on the unused portion of the VAT Revolving Facility.

The Credit Agreement requires VAT to comply with customary covenants, representations and warranties, including the maintenance of specific financial ratios. During the first quarter of 2013, VAT was in compliance with the leverage ratio, but, as a result of the legal entity merger within Israel, reported in the Company's 2012 Annual Report on Form 10-K, VAT was not in compliance with the covenant for tangible net worth to total assets ratio and the covenant for minimum tangible shareholders' equity. The Company obtained a waiver from the Lender respecting such non-compliance as of March 30, 2013. VAT renegotiated the covenants associated with this facility during the second quarter of 2013. The revised financial maintenance covenants require VAT to maintain (a) a leverage ratio of not more than 2.5 to 1.0; (b) a tangible shareholders' equity of not less than \$48.0 million; and (c) a tangible net worth to total assets ratio of not less than 0.65 to 1.0. As of September 28, 2013, VAT was in compliance with its financial maintenance covenants. In the event of covenant non-compliance, the VAT Revolving Facility could be terminated by the Lender, and any amounts outstanding pursuant to the VAT Revolving Facility could become immediately payable.

**Credit Lines**

In connection with the acquisition of the KELK business in January 2013, VPG Canada entered into an uncommitted \$3.0 million line of credit with Royal Bank of Canada.

**Note 7 Long-Term Debt (continued)****Exchangeable Unsecured Notes, due 2102**

By reason of the spin-off, Vishay Intertechnology was required to take action so that the existing exchangeable notes of Vishay Intertechnology were deemed exchanged as of the date of the spin-off, for a combination of new notes of Vishay Intertechnology and notes issued by VPG.

VPG assumed the liability for an aggregate \$10.0 million principal amount of exchangeable notes effective July 6, 2010. The maturity date of the notes is December 13, 2102.

The notes are subject to a put and call agreement under which the holders may at any time put the notes to the Company in exchange for shares of the Company's common stock, and the Company may call the notes in exchange for cash or for shares of its common stock at any time after January 1, 2018. The put/call rate of the VPG notes is \$22.57 per share of common stock. Effective August 28, 2013, a holder of the Company's exchangeable notes exercised its option to exchange approximately \$5.9 million principal amount of the notes for 259,687 shares of VPG common stock. Following this transaction, VPG has outstanding exchangeable unsecured notes with a principal amount of approximately \$4.1 million, which are exchangeable for an aggregate of 181,537 shares of VPG common stock. (See also Note 12 Earnings Per Share).

The notes bear interest at LIBOR. Interest is payable quarterly on March 31, June 30, September 30, and December 31 of each calendar year.

**Other Debt**

Other debt consists of debt held by VPG's Japanese subsidiary and is payable monthly over the next 9 years at a zero percent interest rate.

**Note 8 Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) at September 28, 2013 were (*in thousands*):

|   | <b>Foreign<br/>Currency</b> | <b>Pension<br/>and Other<br/>Postretirement<br/>Benefit Plans</b> | <b>Total</b> |
|---|-----------------------------|---|--------------|
| Balance at January 1, 2013  | \$ (11,044)                 | \$ (3,939)  | \$ (14,983)  |
| Foreign currency translation adjustment   | (5,086)                     | -   | (5,086)      |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | -                           | 220   | 220          |
| Net current period other comprehensive income (loss)                                | (5,086)                     | 220   | (4,866)      |
| Balance at September 28, 2013   | \$ (16,130)                 | \$ (3,719)  | \$ (19,849)  |

Reclassifications of pension and other postretirement actuarial items out of accumulated other comprehensive income (loss) are included in the computation of net periodic benefit cost (see Note 9).

**Note 9 Pension and Other Postretirement Benefits**

Employees of VPG participate in various defined benefit pension and other postretirement benefit plans.

**Defined Benefit Plans***U.S. Pension Plan*

The Vishay Precision Group Nonqualified Retirement Plan is a contributory pension plan and, like all nonqualified plans, is considered to be unfunded. VPG maintains a nonqualified trust, referred to as a rabbi trust, to fund benefits under this plan. Within the trust, plan assets are invested in money market funds and company-owned life insurance policies. Rabbi trust assets are subject to creditor claims under certain conditions and are not the property of employees. Therefore, they are accounted for as other assets within the consolidated condensed balance sheets. The consolidated condensed balance sheets include assets held in trust related to the nonqualified pension plan of \$1.6 million at September 28, 2013 and \$1.8 million at December 31, 2012, and the related pension liabilities of \$1.8 million and \$1.8 million at September 28, 2013 and December 31, 2012, respectively.

The Vishay Precision Group Nonqualified Retirement Plan is frozen, therefore, no further participant contributions are permitted and participants do not continue to accrue benefits.

*Non-U.S. Pension Plans*

The Company provides pension and similar benefits to employees of certain non-U.S. subsidiaries consistent with local practices. Pension benefits earned are generally based on years of service and compensation during active employment.

**Other Postretirement Benefit Plans**

In the U.S., the Company maintains two unfunded non-pension other postretirement benefit plans ( OPEB ) which are funded as costs are incurred. These plans provide medical and death benefits to retirees.

The following table sets forth the components of net periodic cost of pension and other postretirement benefit plans (*in thousands*):

|                                  | Fiscal quarter ended<br>September 28, 2013 |               | Fiscal quarter ended<br>September 29, 2012 |               |
|----------------------------------|--|---------------|--|---------------|
|                                  | Pension<br>Plans                           | OPEB<br>Plans | Pension<br>Plans                           | OPEB<br>Plans |
| Net service cost                 | \$ 111                                     | \$ 18         | \$ 116                                     | \$ 11         |
| Interest cost                    | 212  | 24            | 212  | 28            |
| Expected return on plan assets   | (149)                                      | -             | (146)                                      | -             |
| Amortization of actuarial losses | 42   | 8             | 24   | 18            |
| Net periodic benefit cost        | \$ 216                                     | \$ 50         | \$ 206                                     | \$ 57         |

|                                  | Nine fiscal months ended<br>September 28, 2013 |               | Nine fiscal months ended<br>September 29, 2012 |               |
|----------------------------------|--|---------------|--|---------------|
|                                  | Pension<br>Plans                               | OPEB<br>Plans | Pension<br>Plans                               | OPEB<br>Plans |
| Net service cost                 | \$ 338   | \$ 55         | \$ 346   | \$ 33         |
| Interest cost                    | 640  | 73            | 637  | 84            |
| Expected return on plan assets   | (449)  | -             | (439)  | -             |
| Amortization of actuarial losses | 127  | 22            | 72   | 54            |
| Net periodic benefit cost        | \$ 656   | \$ 150        | \$ 616   | \$ 171        |



**Note 9 Pension and Other Postretirement Benefits (continued)****Other Retirement Obligations**

The Company participates in various other defined contribution and government-mandated retirement plans based on local law or custom. The Company periodically makes required contributions for certain of these plans. At September 28, 2013 and December 31, 2012, the consolidated condensed balance sheets include \$0.9 million and \$0.9 million, respectively, within accrued pension and other postretirement costs related to these plans.

In the U.S., certain key employees participate in a nonqualified deferred compensation plan. The accompanying consolidated condensed balance sheets include a notional liability within other noncurrent liabilities related to these deferrals. VPG maintains a nonqualified trust, referred to as a rabbi trust, to fund payments under this plan. Within the trust, plan assets are invested in money market funds and company-owned life insurance policies. Rabbi trust assets are subject to creditor claims under certain conditions and are not the property of employees. Therefore, they are accounted for as other assets within the consolidated condensed balance sheets. The consolidated condensed balance sheets include assets held in trust related to the deferred compensation plan of \$3.0 million at September 28, 2013 and \$2.5 million at December 31, 2012, and the related notional liabilities of \$3.4 million and \$3.1 million at September 28, 2013 and December 31, 2012, respectively.

**Note 10 Share-Based Compensation**

On May 21, 2013, the stockholders of the Company approved the Amended and Restated Vishay Precision Group, Inc. Stock Incentive Program (as amended and restated, the Plan). The Plan provides for an increase of 500,000 in the number of shares of common stock available for issuance under the Plan, from 500,000 shares to an aggregate of 1,000,000 shares. Aside from the increase in the number of shares of common stock available for issuance thereunder, the Plan is substantially unchanged as a result of the amendment and restatement approved by the Company's stockholders. At September 28, 2013, the Company had reserved 683,595 shares of common stock for future grant of equity awards pursuant to the Plan. If any outstanding awards are forfeited by the holder or cancelled by the Company, the underlying shares would be available for regrant to others.

**Stock Options**

The following table summarizes the Company's stock option activity (*number of options in thousands*):

|                               | 2013                    |  |   |  |
|-------------------------------|-------------------------|--|---|--|
|                               | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (yrs) |  |
| <b>Outstanding:</b>           |                         |  |   |  |
| Balance at January 1, 2013    | 32                      | \$ 18.03                                 |   |  |
| Granted                       | -                       | -  |   |  |
| Exercised                     | -                       | -  |   |  |
| Expired                       | (5)                     | 17.87                                    |   |  |
| Balance at September 28, 2013 | 27                      | \$ 18.06                                 | 3.22  |  |
| <b>Exercisable:</b>           |                         |  |   |  |
| <b>End of period</b>          | 27                      | \$ 18.23                                 |   |  |

The pretax intrinsic value (the difference between the closing stock price of VPG's common stock on the last trading day of the fiscal quarter of \$14.55 per share and the exercise price, multiplied by the number of in-the-money options) that would have been received by the options holders had all option holders exercised their options on September 28, 2013 is not material. No options were exercised during the fiscal quarter or nine fiscal months ended September 28, 2013.

**Note 10 Share-Based Compensation (continued)****Restricted Stock Units**

On January 16, 2013, VPG's three executive officers were granted annual equity awards in the form of restricted stock units (RSUs), of which 75% are performance-based. The awards have an aggregate target grant-date fair value of \$0.8 million and were comprised of 63,262 RSUs, as determined using the average of the closing stock price of the last 5 trading days preceding January 1, 2013. Twenty-five percent of these awards will vest on January 1, 2016, subject to the executives' continued employment. The performance-based portion of the RSUs will also vest on January 1, 2016, subject to the satisfaction of certain performance objectives relating to three year cumulative free cash and net earnings goals. The Company recognizes compensation cost for RSUs that are expected to vest and for which performance criteria are expected to be met.

On May 21, 2013, the Board of Directors approved the issuance of an aggregate of 3,910 RSUs to the three independent board members and to the non-executive chairman of the Board, with an aggregate grant-date fair value of \$0.1 million. The compensation cost with respect to the awards is recognized ratably over the one year vesting period of such awards.

RSU activity for 2013 is presented below (*number of RSUs in thousands*):

|                               | Number<br>of<br>RSUs | Weighted<br>Average<br>Grant-date<br>Fair Value |
|-------------------------------|----------------------|---|
| <b>Outstanding:</b>           |                      |   |
| Balance at January 1, 2013    | 193                  | \$ 15.98  |
| Granted                       | 67                   | 13.07   |
| Vested                        | (114)                | 15.88   |
| Balance at September 28, 2013 | 146                  | \$ 14.72  |

The amount of compensation cost related to share-based payment transactions is measured based on the grant-date fair value of the equity instruments issued. VPG determines compensation cost for RSUs based on the grant-date fair value of the underlying common stock. Compensation cost is recognized over the period that the participant provides service in exchange for the award. RSUs with performance-based vesting criteria are expected to vest as follows (*number of RSUs in thousands*):

| Vesting Date    | Number of RSUs |
|-----------------|----------------|
| March 15, 2014  | 9              |
| March 20, 2014  | 9              |
| January 1, 2015 | 38             |
| March 20, 2015  | 9              |
| January 1, 2016 | 47             |

**Share-Based Compensation Expense**

The following table summarizes share-based compensation expense recognized (*in thousands*):

|                              | Fiscal quarter ended     |                          | Nine fiscal months ended |                          |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                              | September<br>28,<br>2013 | September<br>29,<br>2012 | September<br>28,<br>2013 | September<br>29,<br>2012 |
| Stock options                | \$ -                     | \$ 3                     | \$ 2                     | \$ 8                     |
| Total restricted stock units | 225                      | 301                      | 927                      | 858                      |
| Total                        | \$ 225                   | \$ 304                   | \$ 929                   | \$ 866                   |

**Note 11 Segment Information**

VPG reports in three product segments: the Foil Technology Products segment, the Force Sensors segment, and the Weighing and Control Systems segment. The Foil Technology Products reporting segment is comprised of the foil resistor and strain gage operating segments. The Force Sensors reporting segment is comprised of transducers, load cells and modules. The Weighing and Control Systems reporting segment is comprised of instruments, complete systems for process control, and on-board weighing applications. The results of operations from the newly acquired KELK business are reported in the Weighing and Control Systems reporting segment.

VPG evaluates reporting segment performance based on multiple performance measures including gross profits, revenues and operating income, exclusive of certain items. Management believes that evaluating segment performance, excluding items such as restructuring costs, acquisition costs, and other items is meaningful because it provides insight with respect to the intrinsic operating results of VPG. The following table sets forth reporting segment information (*in thousands*):

|  | Fiscal quarter ended  |                       | Nine fiscal months ended |                       |
|--|-----------------------|-----------------------|--------------------------|-----------------------|
|  | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013    | September 29,<br>2012 |
| <b>Net third-party revenues:</b>   |                       |                       |                          |                       |
| Foil Technology Products   | \$ 22,433             | \$ 26,307             | \$ 71,308                | \$ 80,698             |
| Force Sensors  | 16,388                | 16,502                | 48,876                   | 50,285                |
| Weighing & Control Systems   | 18,908                | 12,621                | 57,843                   | 35,623                |
| Total  | \$ 57,729             | \$ 55,430             | \$ 178,027               | \$ 166,606            |
| <b>Gross profit:</b>   |                       |                       |                          |                       |
| Foil Technology Products   | \$ 8,235              | \$ 10,247             | \$ 26,731                | \$ 32,908             |
| Force Sensors  | 2,882                 | 3,326                 | 10,586                   | 10,000                |
| Weighing & Control Systems   | 8,126                 | 5,166                 | 23,455                   | 14,562                |
| Total  | \$ 19,243             | \$ 18,739             | \$ 60,772                | \$ 57,470             |
| <b>Reconciliation of segment operating income to consolidated results:</b> |                       |                       |                          |                       |
| Foil Technology Products   | \$ 3,912              | \$ 5,960              | \$ 13,926                | \$ 19,745             |
| Force Sensors  | 658                   | 1,161                 | 3,915                    | 3,242                 |
| Weighing & Control Systems   | 2,464                 | 1,966                 | 7,488                    | 4,918                 |
| Unallocated G&A expenses   | (6,276)               | (5,994)               | (19,404)                 | (18,358)              |
| Acquisition costs  | (57)                  | -                     | (752)                    | -                     |
| Restructuring costs  | (99)                  | -                     | (487)                    | -                     |
| Consolidated condensed operating income                                    | \$ 602                | \$ 3,093              | \$ 4,686                 | \$ 9,547              |
| <b>Acquisition costs:</b>  |                       |                       |                          |                       |
| Weighing & Control Systems   | \$ (57)               | \$ -                  | \$ (752)                 | \$ -                  |
| <b>Restructuring costs:</b>  |                       |                       |                          |                       |
| Foil Technology Products   | \$ -                  | \$ -                  | \$ (388)                 | \$ -                  |
| Weighing & Control Systems   | (99)                  | -                     | (99)                     | -                     |
| Total  | \$ (99)               | \$ -                  | \$ (487)                 | \$ -                  |

**Note 11 Segment Information (continued)**

Products are transferred between segments on a basis intended to reflect, as nearly as practicable, the market value of the products. Intersegment sales from the Foil Technology Products segment to the Force Sensors segment and Weighing and Control Systems segment were \$0.5 million and \$0.3 million during the fiscal quarters ended September 28, 2013 and September 29, 2012, respectively, and \$1.4 million and \$1.1 million during the nine fiscal months ended September 28, 2013 and September 29, 2012, respectively. Intersegment sales from the Force Sensors segment to the Foil Technology Products segment and Weighing and Control Systems segment were \$0.5 million and \$0.6 million during the fiscal quarters ended September 28, 2013 and September 29, 2012, respectively, and \$1.7 million and \$1.8 million during the nine fiscal months ended September 28, 2013 and September 29, 2012, respectively. Intersegment sales from the Weighing and Control Systems segment to the Force Sensors segment were \$0.4 million and \$0.6 million during the fiscal quarters ended September 28, 2013 and September 29, 2012, respectively, and \$1.0 million and \$1.9 million during the nine fiscal months ended September 28, 2013 and September 29, 2012, respectively.

**Note 12 Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share attributable to VPG stockholders (*in thousands, except earnings per share*):

|   | Fiscal quarter ended  |                          | Nine fiscal months ended |                          |
|---|-----------------------|--------------------------|--------------------------|--------------------------|
|   | September 28,<br>2013 | September<br>29,<br>2012 | September 28,<br>2013    | September<br>29,<br>2012 |
| <b>Numerator:</b>   |                       |                          |                          |                          |
| Numerator for basic earnings per share:   |                       |                          |                          |                          |
| Net earnings attributable to VPG stockholders                                   | \$ 1,466              | \$ 1,942                 | \$ 3,163                 | \$ 6,526                 |
| Adjustment to the numerator for net earnings:                                   |                       |                          |                          |                          |
| Interest savings assuming conversion of dilutive exchangeable notes, net of tax | 4                     | 7                        | 13                       | 24                       |
| Numerator for diluted earnings per share:                                       |                       |                          |                          |                          |
| Net earnings attributable to VPG stockholders                                   | \$ 1,470              | \$ 1,949                 | \$ 3,176                 | \$ 6,550                 |
| <b>Denominator:</b>   |                       |                          |                          |                          |
| Denominator for basic earnings per share:                                       |                       |                          |                          |                          |
| Weighted average shares   | 13,734                | 13,371                   | 13,504                   | 13,366                   |
| Effect of dilutive securities:  |                       |                          |                          |                          |
| Exchangeable notes  | 181                   | 441                      | 355                      | 441                      |
| Employee stock options  | 1                     | -                        | 1                        | 1                        |
| Restricted stock units  | 28                    | 81                       | 80                       | 73                       |
| Dilutive potential common shares  | 210                   | 522                      | 436                      | 515                      |
| Denominator for diluted earnings per share:                                     |                       |                          |                          |                          |
| Adjusted weighted average shares  | 13,944                | 13,893                   | 13,940                   | 13,881                   |
| Basic earnings per share attributable to VPG stockholders                       |                       |                          |                          |                          |
|   | \$ 0.11               | \$ 0.15                  | \$ 0.23                  | \$ 0.49                  |
| Diluted earnings per share attributable to VPG stockholders                     |                       |                          |                          |                          |
|   | \$ 0.11               | \$ 0.14                  | \$ 0.23                  | \$ 0.47                  |

**Note 12 Earnings Per Share (continued)**

Effective August 28, 2013, a holder of the Company's exchangeable notes exercised its option to exchange approximately \$5.9 million principal amount of the notes for 259,687 shares of VPG common stock. Following this transaction, VPG has outstanding exchangeable unsecured notes with a principal amount of approximately \$4.1 million, which are exchangeable for an aggregate of 181,537 shares of VPG common stock. This transaction has no effect on the calculation of the weighted average shares outstanding used for computing diluted earnings per share because the Company's earnings per share computation assumes that the exchangeable unsecured notes would be converted.

Diluted earnings per share for the periods presented do not reflect the following weighted average potential common shares, as the effect would be antidilutive (*in thousands*):

|   | Fiscal quarter ended  |                       | Nine fiscal months ended |                       |
|---|-----------------------|-----------------------|--------------------------|-----------------------|
|   | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013    | September 29,<br>2012 |
| Weighted average employee stock options | 23                    | 28                    | 23                       | 28                    |
| Weighted average warrants               | -                     | 630                   | -                        | 630                   |

The warrants expired on December 13, 2012. The warrants were antidilutive in the prior year through the expiration date.

**Note 13 Additional Financial Statement Information**

The caption *other* on the consolidated condensed statements of operations consists of the following (*in thousands*):

|                              | Fiscal quarter ended  |                       | Nine fiscal months ended |                       |
|------------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
|                              | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013    | September 29,<br>2012 |
| Foreign exchange gain (loss) | \$ 184                | \$ (207)              | \$ (1,005)               | \$ (201)              |
| Interest income              | 57                    | 164                   | 191                      | 497                   |
| Other                        | (31)                  | (252)                 | (259)                    | (281)                 |
|                              | \$ 210                | \$ (295)              | \$ (1,073)               | \$ 15                 |

Other accrued expenses consist of the following (*in thousands*):

|  | September<br>28,<br>2013 | December<br>31,<br>2012 |
|--|--------------------------|-------------------------|
| Accrued customer advances              | \$ 6,146                 | \$ 846                  |
| Accrued commissions                    | 1,758                    | 299                     |
| Goods received, not yet invoiced       | 1,741                    | 1,746                   |
| Accrued taxes, other than income taxes | 2,206                    | 2,048                   |
| Accrued professional fees              | 1,303                    | 1,339                   |
| Other                                  | 2,496                    | 2,221                   |
|  | \$ 15,650                | \$ 8,499                |

The increase in accrued customer advances and accrued commissions from December 31, 2012 is mainly due to the acquisition of the KELK business on January 31, 2013. Customer advance payments attributable to KELK at September 28, 2013 were \$5.0 million. Customer advance payments represent amounts received from customers for sales, for which the earnings process has not yet been completed. Accrued commissions attributable to KELK at September 28, 2013 were \$1.5 million.

**Note 14 Fair Value Measurements**

Accounting Standards Codification (ASC) Topic 820 *Fair Value Measurement*, establishes a valuation hierarchy of the inputs used to measure fair value. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

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

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

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

An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following tables provide the financial assets and liabilities carried at fair value measured on a recurring basis (*in thousands*):

|                             | <b>Fair value measurements at reporting date using:</b> |                       |                       |                       |
|-----------------------------|---|-----------------------|-----------------------|-----------------------|
|                             | <b>Total Fair Value</b>                                 | <b>Level 1 Inputs</b> | <b>Level 2 Inputs</b> | <b>Level 3 Inputs</b> |
| <b>September 28, 2013</b>   |   |                       |                       |                       |
| <u>Assets</u>               |   |                       |                       |                       |
| Assets held in rabbi trusts | \$ 4,583  | \$ 1,097              | \$ 3,486              | \$ -                  |
| <b>December 31, 2012</b>    |   |                       |                       |                       |
| <u>Assets</u>               |   |                       |                       |                       |
| Assets held in rabbi trusts | \$ 4,299  | \$ 1,102              | \$ 3,197              | \$ -                  |

The Company maintains nonqualified trusts, referred to as rabbi trusts, to fund payments under deferred compensation and nonqualified pension plans. Rabbi trust assets consist primarily of marketable securities, classified as available-for-sale money market funds at September 28, 2013 and December 31, 2012, and company-owned life insurance assets. The marketable securities held in the rabbi trusts are valued using quoted market prices on the last business day of the period. The company-owned life insurance assets are valued in consultation with the Company's insurance brokers using the value of underlying assets of the insurance contracts. The fair value measurement of the marketable securities held in the rabbi trust is considered a Level 1 measurement and the measurement of the company-owned life insurance assets is considered a Level 2 measurement within the fair value hierarchy.

The fair value of the long-term debt at September 28, 2013 and December 31, 2012 is approximately \$26.2 million and \$7.5 million, respectively, compared to its carrying value of \$27.9 million and \$11.3 million, respectively. The Company estimates the fair value of its long-term debt using a combination of quoted market prices for similar financing arrangements and expected future payments discounted at risk-adjusted rates. The fair value of long-term debt is considered a Level 2 measurement within the fair value hierarchy.

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

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

VPG is an internationally recognized designer, manufacturer and marketer of components based on resistive foil technology, sensors and sensor-based systems specializing in the growing markets of stress, force, weight, pressure, and current measurements. We provide vertically integrated products and solutions that are primarily based upon our proprietary foil technology. These products are marketed under a variety of brand names that we believe are characterized as having a very high level of precision and quality. Our global operations enable us to produce a wide variety of products in strategically effective geographical locations that also optimize our resources for specific technologies, sensors, assemblies and systems.

The Company's products are precision foil resistors, foil strain gages, and sensors that convert mechanical inputs into an electronic signal for display, processing, interpretation, or control by our instrumentation and systems products. Precision sensors are essential to the accurate measurement, resolution and display of force, weight, pressure, torque, tilt, motion or acceleration, especially in the legal-for-trade, commercial, and industrial marketplace in a wide variety of applications. Our products are not typically used in the consumer market.

The precision sensor market is growing as a result of the significant increase in intelligent products across virtually all end markets, including medical, agricultural, transportation, industrial, avionics, military, and space applications. We believe that as original equipment manufacturers strive to make products smarter, they are generally integrating more sensors to link the analog/physical world with digital control and/or response.

VPG reports in three product segments: the Foil Technology Products segment, the Force Sensors segment, and the Weighing and Control Systems segment. The Foil Technology Products reporting segment is comprised of the foil resistor and strain gage operating segments. The Force Sensors reporting segment is comprised of transducers, load cells and modules. The Weighing and Control Systems reporting segment is comprised of instruments, complete systems for process control, and on-board weighing applications.

In January 2013, we completed the acquisition of substantially all of the assets of the George Kelk Corporation (KELK). KELK engineers, designs and manufactures highly accurate optical and electronic roll force measurement and control equipment primarily used in metals rolling mills and mining applications throughout the world. This acquisition expands our geographic and end market strength in the metals measurement processing market and adds new products to our Weighing and Control Systems reporting segment. The results of operations of KELK are included in our consolidated condensed statement of operations beginning February 1, 2013.

Net revenues for the fiscal quarter ended September 28, 2013 were \$57.7 million versus \$55.4 million for the comparable prior year period. Net earnings attributable to VPG stockholders for the fiscal quarter ended September 28, 2013 were \$1.5 million, or \$0.11 per diluted share, versus \$1.9 million, or \$0.14 per diluted share, for the comparable prior year period.

Net revenues for the nine fiscal months ended September 28, 2013 were \$178.0 million versus \$166.6 million for the comparable prior year period. Net earnings attributable to VPG stockholders for the nine fiscal months ended September 28, 2013 were \$3.2 million, or \$0.23 per diluted share, versus \$6.5 million, or \$0.47 per diluted share, for the comparable prior year period.

During the second quarter of 2013, the Company's first quarter 2013 operating results were recast to reflect purchase accounting adjustments associated with the KELK acquisition. The impact of these adjustments was an increase in the costs of products sold of \$1.2 million during the first quarter of 2013. The recast net earnings attributable to VPG stockholders for the fiscal quarter ended March 30, 2013 were \$0.4 million, or \$0.03 per diluted share.

**Financial Metrics**

We utilize several financial measures and metrics to evaluate the performance and assess the future direction of our business. These key financial measures and metrics include net revenues, gross profit margin, end-of-period backlog, book-to-bill ratio, and inventory turnover.

Gross profit margin is computed as gross profit as a percentage of net revenues. Gross profit is generally net revenues less costs of products sold, but could also include certain other period costs. Gross profit margin is clearly a function of net revenues, but also reflects our cost-cutting programs and our ability to contain fixed costs.

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

Another important indicator of demand in our industry is the book-to-bill ratio, which is the ratio of the amount of product ordered during a period compared with the product that we ship during that period. A book-to-bill ratio that is greater than one indicates that demand is higher than current revenues and manufacturing capacities, and it indicates that we may generate increasing revenues in future periods. Conversely, a book-to-bill ratio that is less than one is an indicator of lower demand compared to existing revenues and current capacities and may foretell declining sales.

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

The quarter-to-quarter trends in these financial metrics can also be an important indicator of the likely direction of our business. The following table shows net revenues, gross profit margin, the end-of-period backlog, the book-to-bill ratio, and the inventory turnover for our business as a whole during the five quarters beginning with the third quarter of 2012 and through the third quarter of 2013. The 1<sup>st</sup> quarter 2013 balances presented below were recast to reflect the purchase accounting adjustments, recorded in connection with the KELK acquisition preliminary valuation during the second quarter of 2013 (*dollars in thousands*):

|                       | <b>3rd<br/>Quarter<br/>2012<br/>(recast)</b> | <b>4th<br/>Quarter<br/>2012</b> | <b>1st Quarter<br/>2013</b> | <b>2nd<br/>Quarter<br/>2013</b> | <b>3rd<br/>Quarter<br/>2013</b> |
|-----------------------|--|---------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Net revenues          | \$ 55,430                                    | \$ 51,010                       | \$ 57,461                   | \$ 62,837                       | \$ 57,729                       |
| Gross profit margin   | 33.8%  | 34.4%                           | 34.8%                       | 34.3%                           | 33.3%                           |
| End-of-period backlog | \$ 40,100                                    | \$ 38,900                       | \$ 63,100                   | \$ 59,400                       | \$ 60,900                       |
| Book-to-bill ratio    | 0.92   | 0.96                            | 1.02                        | 0.98                            | 1.01                            |
| Inventory turnover    | 2.96   | 2.73                            | 2.79                        | 2.87                            | 2.75                            |

See Financial Metrics by Segment below for net revenues, gross profit margin, end-of-period backlog, book-to-bill ratio, and inventory turnover broken out by segment.

Revenues decreased from the third quarter of 2012 to the fourth quarter of 2012 mainly due to volume decreases across all product lines and regions. There was also a slight decline in orders, primarily in the Americas and Asia, in the fourth quarter of 2012 versus the third quarter of 2012. Revenues during 2013 improved from the fourth quarter of 2012, with the addition of KELK's revenue in each of the quarters. KELK contributed \$5.5 million, \$10.5 million and \$8.2 million in revenues during the first, second and third quarters of 2013, respectively. The third quarter 2013 revenues were negatively impacted by the decline in revenues in our Foil Technology Products segment mainly due to lower volume. Inefficiencies associated with a previously announced enterprise resource planning (ERP) implementation caused a slowdown in shipments during the third quarter of 2013 in three of our manufacturing facilities in the Foil Technology Products segment, resulting in lower revenue for the segment. Revenue also declined in our Weighing and Control Systems segment compared to the second quarter of 2013 due to the impact of significantly strong revenues for KELK in the second quarter that were not sustainable.



The gross profit margin declined in the third quarter of 2013 after being relatively flat since the fourth quarter of 2012. This was due to lower volume in our Foil Technology Products and our Weighing and Control Systems segments. While the Weighing and Control Systems segment gross profit margins have improved in 2013, due to the KELK acquisition, this increase has been partially offset by the KELK acquisition purchase accounting adjustments. Without these adjustments, VPG's gross margin percentages would have been 36.9% for the first quarter of 2013, 37.9% for the second quarter of 2013 and 34.9% for the third quarter of 2013. Improved gross profit margins in the Weighing and Control Systems segment have been offset by the decreased gross profit margins in the Foil Technology Products and Force Sensors segments. The Foil Technology Products segment has been impacted by lower demand in Japan during the first half of 2013, and the effect of an ERP implementation in the third quarter of 2013, which caused manufacturing inefficiencies and a slowdown in shipments. The Force Sensors segment has been impacted by lower volume in the second quarter of 2013, and higher manufacturing costs in the third quarter of 2013 related to a new product launch.

Backlog increased from \$38.9 million in the fourth quarter of 2012 to \$60.9 million in the third quarter of 2013 and was mainly due to the KELK acquisition. KELK's business has a significant amount of firm commitments and orders within the next six to twelve months, and therefore accounts for the majority of the increase in backlog from the fourth quarter of 2012 through the third quarter of 2013.

Our book-to-bill ratio was 1.01 in the third quarter of 2013 compared to 0.92 in the third quarter of 2012 and 0.98 in the second quarter of 2013. Excluding the effect of the KELK business, which operates with long cycle times of approximately six to nine months from order to delivery, the book-to-bill ratio has remained constant at 1.04 for the first, second and third quarters of 2013.

### Financial Metrics by Segment

The following table shows net revenues, gross profit margin, end-of-period backlog, book-to-bill ratio, and inventory turnover broken out by segment for the five quarters beginning with the third quarter of 2012 and through the third quarter of 2013. The first quarter 2013 balances for the Weighing and Control Systems segment presented below were recast to reflect the purchase accounting adjustments, recorded in connection with the KELK acquisition preliminary valuation during the second quarter of 2013 (*dollars in thousands*):

|  | 3rd<br>Quarter<br>2012<br><i>(recast)</i> | 4th<br>Quarter<br>2012 | 1st<br>Quarter<br>2013 | 2nd<br>Quarter<br>2013 | 3rd<br>Quarter<br>2013 |
|--|---|------------------------|------------------------|------------------------|------------------------|
| <b><i>Foil Technology Products</i></b>     |   |                        |                        |                        |                        |
| Net revenues                               | \$ 26,307                                 | \$ 24,509              | \$ 24,352              | \$ 24,523              | \$ 22,433              |
| Gross profit margin                        | 38.9%                                     | 40.6%                  | 37.6%                  | 38.1%                  | 36.7%                  |
| End-of-period backlog                      | \$ 20,800                                 | \$ 19,600              | \$ 20,700              | \$ 21,600              | \$ 24,100              |
| Book-to-bill ratio                         | 0.93                                      | 0.96                   | 1.06                   | 1.05                   | 1.10                   |
| Inventory turnover                         | 3.52                                      | 3.23                   | 3.42                   | 3.52                   | 3.28                   |
| <b><i>Force Sensors</i></b>                |   |                        |                        |                        |                        |
| Net revenues                               | \$ 16,502                                 | \$ 15,502              | \$ 16,396              | \$ 16,092              | \$ 16,388              |
| Gross profit margin                        | 20.2%                                     | 22.5%                  | 26.8%                  | 20.5%                  | 17.6%                  |
| End-of-period backlog                      | \$ 13,300                                 | \$ 12,500              | \$ 13,000              | \$ 13,600              | \$ 12,500              |
| Book-to-bill ratio                         | 0.97                                      | 0.94                   | 1.04                   | 1.04                   | 0.92                   |
| Inventory turnover                         | 2.15                                      | 1.99                   | 1.94                   | 1.99                   | 2.08                   |
| <b><i>Weighing and Control Systems</i></b> |   |                        |                        |                        |                        |
| Net revenues                               | \$ 12,621                                 | \$ 10,999              | \$ 16,713              | \$ 22,222              | \$ 18,908              |
| Gross profit margin                        | 40.9%                                     | 37.6%                  | 38.4%                  | 40.1%                  | 43.0%                  |
| End-of-period backlog                      | \$ 6,000                                  | \$ 6,800               | \$ 29,400              | \$ 24,200              | \$ 24,300              |
| Book-to-bill ratio                         | 0.85                                      | 0.99                   | 0.94                   | 0.87                   | 0.98                   |
| Inventory turnover                         | 4.37                                      | 4.00                   | 3.64                   | 3.65                   | 3.38                   |

### **Optimize Core Competence**

The Company's core products incorporate certain technologies to provide customers with precision foil products, force measurement sensors, and systems. Our foil technology products are recognized as global market leaders of strain gages and resistors that provide high precision, high stability over extreme temperature ranges, and long life. Our force sensor products and our weighing and control systems products are also certified to meet some of the highest levels of precision measurements of force, weight, pressure, torque, tilt, motion, and acceleration. While these competencies form a solid basis for our products, we believe there are several areas that can be optimized, including: increasing our technical sales efforts; continuing to innovate in product performance and design; and refining our manufacturing processes.

Our foil technology research group continues to provide innovations that enhance the capability and performance of our strain gages, while simultaneously reducing their size and power consumption. We believe this new level of foil technology will create new markets as customers design in these next generation products in existing and new applications. Our development engineering team is also responsible for creating new processes to further automate manufacturing and improve productivity and quality.

Our design, research, and product development teams, in partnership with our marketing teams, drive our efforts to bring innovations to market. We intend to leverage our insights into customer demand to continually develop and roll out new, innovative products within our existing lines and to modify our existing core products in ways that make them more appealing, addressing changing customer needs and industry trends in terms of form, fit, and function.

### **Acquisition Strategy**

We continue to focus on vertical product integration, using our foil strain gages in our force sensor products and incorporating our sensors and electronic measurement instrumentation and software into our weighing and control systems. Precision foil resistor products are also used in many of the control systems that we manufacture.

The acquisition of KELK is consistent with our acquisition strategy and provides growth in our Weighing and Control Systems segment through expansion into the metals measurement processing market. We expect to continue to make strategic acquisitions, like the KELK acquisition, particularly where opportunities present themselves to grow our Force Sensors segment and our Weighing and Control Systems segment. We believe acquired businesses will benefit from improvements we implement to reduce redundant functions and from our current global manufacturing operations and distribution channels.

### **Research and Development**

Research and development will continue to play a key role in our efforts to introduce innovative products to generate new sales and to improve profitability. We expect to continue to expand our position as a leading supplier of precision foil technology products. We believe our R&D efforts should provide us with a variety of opportunities to leverage technology, products, and our manufacturing base in order to ultimately improve our financial performance. With the acquisition of KELK, we expect our research and development costs to increase. KELK employs a large group of research and development engineers and, shares in our philosophy of improving products, developing new innovations, and broadening the range of applications for existing products.

### **Cost Management**

To be successful, we believe we must seek new strategies for controlling operating costs. Through automation in our plants, we believe we can optimize our capital and labor resources in production, inventory management, quality control, and warehousing. We are in the process of moving some manufacturing from higher-labor-cost countries to lower-labor-cost countries, such as Costa Rica, India, and Israel. This will enable us to become more efficient and cost competitive, and also maintain tighter controls of the operation.

Production transfers, facility consolidations, and other long-term cost-cutting measures require us to initially incur significant severance and other exit costs. We have begun to realize the benefits of our restructuring through lower labor costs and other operating expenses, and expect to continue reaping these benefits in future periods. However, these programs to improve our profitability also involve certain risks which could materially impact our future operating results, as further detailed in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K filed on March 12, 2013.

We recorded restructuring costs of \$0.1 million during the fiscal quarter ended September 28, 2013. These costs were comprised of employee termination costs, including severance and a statutory retirement allowance at KELK and were incurred in connection with a cost reduction in one of the manufacturing areas. The restructuring costs were fully paid during the third quarter of 2013.

In March 2013, we initiated a restructuring program at one of our Japanese subsidiaries. We recorded restructuring costs of \$0.4 million during the fiscal quarter ended March 30, 2013, which were comprised of employee termination costs, including severance and a statutory retirement allowance. The restructuring was undertaken primarily in response to the declining business conditions in Japan. The restructuring costs were fully paid during the second quarter of 2013.

We are also presently executing plans to further reduce our costs by consolidating additional manufacturing operations with our expansion into India. These plans will require us to incur restructuring and severance costs in future periods. While streamlining and reducing fixed overhead, we are exercising caution so that we will not negatively impact our customer service, or our ability to further develop products and processes.

### **Foreign Currency**

We are exposed to foreign currency exchange rate risks, particularly due to transactions in currencies other than the functional currencies of certain subsidiaries. U.S. generally accepted accounting principles ( GAAP ) require that entities identify the functional currency of each of their subsidiaries and measure all elements of the financial statements in that functional currency. A subsidiary s functional currency is the currency of the primary economic environment in which it operates. In cases where a subsidiary is relatively self-contained within a particular country, the local currency is generally deemed to be the functional currency. However, a foreign subsidiary that is a direct and integral component or extension of the parent company s operations generally would have the parent company s currency as its functional currency. We have subsidiaries that fall into each of these categories.

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

We finance our operations in Europe, Canada, and certain locations in Asia using local currencies, and accordingly, these subsidiaries utilize the local currency as their functional currency. For those subsidiaries where the local currency is the functional currency, assets and liabilities in the consolidated condensed balance sheets have been translated at the rate of exchange as of the balance sheet dates. Translation adjustments do not impact the results of operations and are reported as a separate component of equity. The change in the foreign currency translation adjustment is reported on the consolidated condensed statements of comprehensive income (loss) for the periods presented.

For those subsidiaries where the local currency is the functional currency, revenues and expenses are translated at the average exchange rate for the year. While the translation of revenues and expenses into U.S. dollars does not directly impact the consolidated condensed statement of operations, the translation effectively increases or decreases the U.S. dollar equivalent of revenues generated and expenses incurred in those foreign currencies.

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

Our operations in Israel and certain locations in Asia are largely financed in U.S. dollars, and accordingly, these subsidiaries utilize the U.S. dollar as their functional currency. For those foreign subsidiaries where the U.S. dollar is the functional currency, all foreign currency financial statement amounts are remeasured into U.S. dollars. Exchange gains and losses arising from remeasurement of foreign currency-denominated monetary assets and liabilities are included in the results of operations. While these subsidiaries transact most business in U.S. dollars, they may have significant costs, particularly related to payroll, which are incurred in the local currency. For the fiscal quarter ended September 28, 2013, exchange rates negatively impacted net revenues by \$0.4 million and negatively impacted costs of products sold and selling, general, and administrative expenses by \$0.1 million when compared to the comparable prior year period. For the nine fiscal months ended September 28, 2013, exchange rates negatively impacted net revenues by \$1.8 million and positively impacted costs of products sold and selling, general, and administrative expenses by \$0.4 million when compared to the comparable prior year period.

**Critical Accounting Policies and Estimates**

The following updates our critical accounting policies and estimates which were disclosed in our Annual Report on Form 10-K, for the fiscal year ended December 31, 2012.

***Goodwill and Indefinite-Lived Intangible Assets***

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually. We will perform our annual impairment test as of the first day of the fiscal fourth quarter. These impairment tests must be performed more frequently if there are triggering events.

Accounting Standards Codification ( ASC ) Topic 350, *Intangibles - Goodwill and Other*, prescribes a two-step method for determining goodwill impairment. In the first step, the Company would determine the fair value of the reporting unit and compare that fair value to the net book value of the reporting unit. The fair value of the reporting unit is determined using various valuation techniques, including a discounted cash flow analysis (an income approach) and a comparable companies market multiple approach.

In September 2011, the Financial Accounting Standards Board (“FASB”) issued amendments to simplify how entities test goodwill for impairment. Under the updated guidance, an entity now has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If the assessment of qualitative factors leads to a determination that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then the entity is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing it against its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment.

To measure the amount of the impairment, ASC Topic 350 prescribes that entities determine the implied fair value of goodwill in the same manner as if an entity had acquired those reporting units. Specifically, the entity must allocate the fair value of the reporting unit to all of the assets of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. The impairment loss is measured as the difference between the book value of the goodwill and the implied fair value of the goodwill computed in step two.

In July 2012, the FASB issued Accounting Standards Update ( ASU ) No. 2012-02, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. Under the revised guidance, when testing an indefinite-lived intangible asset for impairment the Company has the option of performing a qualitative assessment before calculating the fair value of the asset. If the Company determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not impaired, the Company would not need to calculate the fair value of the asset. The ASU does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the ASU does not amend the requirement to test these assets for impairment between annual tests if there is a change in events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods. We will perform our annual impairment test on the indefinite-lived intangible assets as of the first day of the fiscal fourth quarter.

**Results of Operations**

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

|   | Fiscal quarter ended |                    | Nine fiscal months ended |                    |
|---|----------------------|--------------------|--------------------------|--------------------|
|   | September 28, 2013   | September 29, 2012 | September 28, 2013       | September 29, 2012 |
| Costs of products sold                        | 66.7%                | 66.2%              | 65.9%                    | 65.5%              |
| Gross profit                                  | 33.3%                | 33.8%              | 34.1%                    | 34.5%              |
| Selling, general, and administrative expenses | 32.0%                | 28.2%              | 30.8%                    | 28.8%              |
| Operating income                              | 1.0%                 | 5.6%               | 2.6%                     | 5.7%               |
| Income before taxes                           | 0.9%                 | 4.9%               | 1.6%                     | 5.6%               |
| Net earnings                                  | 2.5%                 | 3.4%               | 1.8%                     | 3.9%               |
| Net earnings attributable to VPG stockholders | 2.5%                 | 3.5%               | 1.8%                     | 3.9%               |
| Effective tax rate                            | -171.5%              | 29.8%              | -11.9%                   | 29.9%              |

**Net Revenues**

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

|  | Fiscal quarter ended |                    | Nine fiscal months ended |                    |
|--|----------------------|--------------------|--------------------------|--------------------|
|  | September 28, 2013   | September 29, 2012 | September 28, 2013       | September 29, 2012 |
| Net revenues                               | \$ 57,729            | \$ 55,430          | \$ 178,027               | \$ 166,606         |
| Change versus comparable prior year period | \$ 2,299             |                    | \$ 11,421                |                    |
| Percentage change versus prior year period | 4.1%                 |                    | 6.9%                     |                    |

Changes in net revenues were attributable to the following:

| Change attributable to:          | vs. prior year quarter | vs. prior year-to-date |
|----------------------------------|------------------------|------------------------|
| Change in volume                 | -9.6%                  | -6.3%                  |
| Change in average selling prices | -0.4%                  | -0.1%                  |
| Foreign currency effects         | -0.7%                  | -1.1%                  |
| Acquisitions                     | 14.8%                  | 14.5%                  |
| Other                            | 0.0%                   | -0.1%                  |
| Net change                       | 4.1%                   | 6.9%                   |

During the fiscal quarter and nine fiscal months ended September 28, 2013, the improvement in revenues, as compared to the prior year period, was due primarily to the acquisition of the KELK business, partially offset by sales volume decreases across all of our reportable segments.

**Gross Profit and Margins**

Gross profit as a percentage of net revenues was as follows:

|                         | Fiscal quarter ended  |                       | Nine fiscal months ended |                       |
|-------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
|                         | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013    | September 29,<br>2012 |
| Gross margin percentage | 33.3%                 | 33.8%                 | 34.1%                    | 34.5%                 |

The gross margin percentage for the fiscal quarter and nine fiscal months ended September 28, 2013, respectively, decreased slightly compared to the comparable prior year periods. The KELK acquisition purchase accounting adjustments increased costs of products sold during the fiscal quarter and nine fiscal months ended September 28, 2013 by \$0.9 million and \$4.4 million, respectively, thereby impacting the gross margin percentage. Excluding these adjustments, the gross margin percentage would have been 34.9% and 36.6% for the fiscal quarter and nine fiscal months ended September 28, 2013, respectively.

**Segments**

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

*Foil Technology Products*

Net revenues of the Foil Technology Products segment were as follows (*dollars in thousands*):

|  | Fiscal quarter ended  |                       | Nine fiscal months ended |                       |
|--|-----------------------|-----------------------|--------------------------|-----------------------|
|  | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013    | September 29,<br>2012 |
| Net revenues                               | \$ 22,433             | \$ 26,307             | \$ 71,308                | \$ 80,698             |
| Change versus comparable prior year period | \$ (3,874)            |                       | \$ (9,390)               |                       |
| Percentage change versus prior year period | -14.7%                |                       | -11.6%                   |                       |

Changes in Foil Technology Products segment net revenues were attributable to the following:

|                                  | vs. prior year quarter | vs. prior year-to-date |
|----------------------------------|------------------------|------------------------|
| <b>Change attributable to:</b>   |                        |                        |
| Change in volume                 | -12.4%                 | -8.8%                  |
| Change in average selling prices | -0.3%                  | -0.4%                  |
| Foreign currency effects         | -2.3%                  | -2.7%                  |
| Other                            | 0.3%                   | 0.3%                   |
| Net change                       | -14.7%                 | -11.6%                 |

The decrease in volume in the current year quarter, when compared to the prior year quarter is primarily due to lower shipments at three of our manufacturing facilities, where a new ERP system was implemented during the third quarter of 2013. Inefficiencies from the ERP implementation during the quarter resulted in a slowdown in shipments. We will continue to address the implementation issues during the fourth quarter of 2013.



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The year-to-date volume decrease compared to the comparable prior year period includes the ERP implementation impact as described above, as well as the impact of the economic slowdown in Japan during the first half of 2013. There has been a recovery in our business in Japan beginning in the third quarter of 2013.

Gross profit as a percentage of net revenues for the Foil Technology Products segment was as follows:

|                         | Fiscal quarter ended  |                       | Nine fiscal months ended |                       |
|-------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
|                         | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013    | September 29,<br>2012 |
| Gross margin percentage | 36.7%                 | 38.9%                 | 37.5%                    | 40.8%                 |

The gross margin percentage for the fiscal quarter and nine fiscal months ended September 28, 2013 decreased from the comparable prior year periods largely due to the reduction in volume as described above. In addition to the slowdown in shipments, the ERP implementation has caused manufacturing inefficiencies which have resulted in lower gross margin percentages when compared to the prior year periods. The year-to-date gross margin percentage is also impacted by the declining business conditions in Japan during the first half of 2013; however, there has been a recovery in our business in Japan beginning in the third quarter of 2013.

*Force Sensors*

Net revenues of the Force Sensors segment were as follows (*dollars in thousands*):

|  | Fiscal quarter ended  |                       | Nine fiscal months ended |                       |
|--|-----------------------|-----------------------|--------------------------|-----------------------|
|  | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013    | September 29,<br>2012 |
| Net revenues                               | \$ 16,388             | \$ 16,502             | \$ 48,876                | \$ 50,285             |
| Change versus comparable prior year period | \$ (114)              |                       | \$ (1,409)               |                       |
| Percentage change versus prior year period | -0.7%                 |                       | -2.8%                    |                       |

Changes in Force Sensors segment net revenues were attributable to the following:

|                                  | vs. prior year<br>quarter | vs. prior year-<br>to-date |
|----------------------------------|---------------------------|----------------------------|
| <b>Change attributable to:</b>   |                           |                            |
| Change in volume                 | -0.9%                     | -3.1%                      |
| Change in average selling prices | -0.5%                     | 0.1%                       |
| Foreign currency effects         | 0.6%                      | 0.2%                       |
| Other                            | 0.1%                      | 0.0%                       |
| Net change                       | -0.7%                     | -2.8%                      |

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

|                         | Fiscal quarter ended  |                       | Nine fiscal months ended |                       |
|-------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
|                         | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013    | September 29,<br>2012 |
| Gross margin percentage | 17.6%                 | 20.2%                 | 21.7%                    | 19.9%                 |



The gross margin percentage for the fiscal quarter ended September 28, 2013 was down from the comparable prior year period due to lower volume, customer mix, and higher manufacturing costs related to a new product launch. The gross margin percentage for the nine fiscal months ended September 28, 2013 improved from the comparable prior year period. The volume decrease was offset by improved operating efficiencies resulting from movement of production to our new facility in India and a reduction in fixed costs such as travel, transportation and rent.

*Weighing and Control Systems*

Net revenues of the Weighing and Control Systems segment were as follows (*dollars in thousands*):

|  | Fiscal quarter ended |                    | Nine fiscal months ended |                    |
|--|----------------------|--------------------|--------------------------|--------------------|
|  | September 28, 2013   | September 29, 2012 | September 28, 2013       | September 29, 2012 |
| Net revenues                               | \$ 18,908            | \$ 12,621          | \$ 57,843                | \$ 35,623          |
| Change versus comparable prior year period | \$ 6,287             |                    | \$ 22,220                |                    |
| Percentage change versus prior year period | 49.8%                |                    | 62.4%                    |                    |

Changes in Weighing and Control Systems segment net revenues were attributable to the following:

|                                  | vs. prior year quarter | vs. prior year-to-date |
|----------------------------------|------------------------|------------------------|
| <b>Change attributable to:</b>   |                        |                        |
| Change in volume                 | -16.2%                 | -6.8%                  |
| Change in average selling prices | -0.2%                  | 0.1%                   |
| Foreign currency effects         | 0.8%                   | 0.6%                   |
| Acquisitions                     | 64.9%                  | 68.0%                  |
| Other                            | 0.5%                   | 0.5%                   |
| Net change                       | 49.8%                  | 62.4%                  |

The acquisition of the KELK business is primarily responsible for the significant increase in revenues for the fiscal quarter and nine fiscal months ended September 28, 2013, when compared to the prior year periods. Excluding the revenues from KELK, the Weighing and Control Systems segment, net revenues were down mainly due to decreased volume in the process weighing businesses.

Gross profit as a percentage of net revenues for the Weighing and Control Systems segment were as follows:

|                         | Fiscal quarter ended |                    | Nine fiscal months ended |                    |
|-------------------------|----------------------|--------------------|--------------------------|--------------------|
|                         | September 28, 2013   | September 29, 2012 | September 28, 2013       | September 29, 2012 |
| Gross margin percentage | 43.0%                | 40.9%              | 40.5%                    | 40.9%              |

The gross margin percentage for the fiscal quarter ended September 28, 2013, increased compared to the comparable prior year period. Higher volume from the acquisition of the KELK business was partially offset by the impact of the KELK acquisition purchase accounting adjustments, which increased costs of products sold by \$0.9 million for the fiscal quarter ended September 28, 2013. Excluding these adjustments, the gross margin percentage would have been 47.8% for the fiscal quarter ended September 28, 2013.

The gross margin percentage for the nine fiscal months ended September 28, 2013, decreased slightly compared to the comparable prior year period mainly due to the KELK acquisition purchase accounting adjustments which increased costs of products sold by \$4.4 million. Excluding these adjustments, the gross margin percentage would have been 48.2% for the nine fiscal months ended September 28, 2013.

**Selling, General, and Administrative Expenses**

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

|                                 | Fiscal quarter ended |                    | Nine fiscal months ended |                    |
|---------------------------------|----------------------|--------------------|--------------------------|--------------------|
|                                 | September 28, 2013   | September 29, 2012 | September 28, 2013       | September 29, 2012 |
| Total SG&A expenses             | \$ 18,485            | \$ 15,646          | \$ 54,847                | \$ 47,923          |
| as a percentage of net revenues | 32.0%                | 28.2%              | 30.8%                    | 28.8%              |

Given the specialized nature of our products and our direct sales approach, we incur significant selling, general, and administrative costs. SG&A expenses for the fiscal quarter ended September 28, 2013 increased \$2.8 million as compared to the comparable prior year period, mainly due to the acquisition of the KELK business. SG&A expenses for KELK were \$3.3 million for the fiscal quarter ended September 28, 2013. SG&A expenses, excluding KELK, were down \$0.5 million from the prior year period mainly due to lower commissions and lower depreciation.

SG&A expenses for the nine fiscal months ended September 28, 2013 increased \$6.9 million as compared to the comparable prior year period, mainly due to the acquisition of the KELK business. SG&A expenses for KELK were \$8.4 million for the nine fiscal months ended September 28, 2013. SG&A expenses, excluding KELK, were down \$1.5 million from the prior year period due to lower lease and rent expense, headcount reduction, and lower travel expense. Additionally, a non-recurring \$0.2 million loss on a sale of fixed assets was recorded in the nine fiscal months ended September 29, 2012.

**Acquisition Costs**

In connection with the acquisition of the KELK business in January 2013, we recorded acquisition costs in our consolidated condensed statement of operations for the fiscal quarter and nine fiscal months ended September 28, 2013, respectively, as follows (in thousands):

|                           | Fiscal quarter ended September 28, 2013 | Nine fiscal months ended September 28, 2013 |
|---------------------------|---|---|
| Accounting and legal fees | \$ 57                                   | \$ 610                                      |
| Appraisal fees            | -                                       | 84  |
| Other                     | -                                       | 58  |
|                           | \$ 57                                   | \$ 752                                      |

**Restructuring Costs**

Restructuring costs reflect the cost reduction programs implemented by the Company. Restructuring costs are expensed during the period in which the Company determines it will incur those costs and all requirements for accrual are met. Because these costs are recorded based upon estimates, actual expenditures for the restructuring activities may differ from the initially recorded costs. If the initial estimates are too low or too high, the Company could be required to either record additional expense in future periods or to reverse part of the previously recorded charges.

We recorded restructuring costs of \$0.1 million during the fiscal quarter ended September 28, 2013. These costs were comprised of employee termination costs, including severance and a statutory retirement allowance at KELK and were incurred in connection with a cost reduction in one of the manufacturing areas. The restructuring costs were fully paid during the third quarter of 2013.

We recorded restructuring costs of \$0.4 million during the fiscal quarter ended March 30, 2013. These costs were comprised of employee termination costs, including severance and a statutory retirement allowance, covering 16 technical, production and administrative employees at one of the Company's subsidiaries in Japan. The restructuring was undertaken primarily in response to the declining business conditions in Japan. The restructuring costs were fully paid during the second quarter of 2013.

**Other Income (Expense)**

Total interest expense for the fiscal quarter and nine fiscal months ended September 28, 2013 increased \$0.2 million and \$0.6 million, respectively, when compared to comparable prior year periods. This is primarily due to the term loans, totaling \$25.0 million, entered into in January 2013 in connection with the amended and restated credit agreement (see Financial Condition, Liquidity, and Capital Resources below). The term loans were originated in connection with the acquisition of the KELK business.

Foreign currency exchange gains and losses represent the impact of changes in foreign currency exchange rates with, among other things, the revaluation of balance sheet accounts. The change in foreign exchange (loss) gains during the period, as compared to the prior year period is largely due to exposure to currency fluctuations with the Canadian dollar, in connection with the acquisition of the KELK business.

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

|                              | Fiscal quarter ended  |                       |        |
|------------------------------|-----------------------|-----------------------|--------|
|                              | September 28,<br>2013 | September 29,<br>2012 | Change |
| Foreign exchange gain (loss) | \$ 184                | \$ (207)              | \$ 391 |
| Interest income              | 57                    | 164                   | (107)  |
| Other                        | (31)                  | (252)                 | 221    |
|                              | \$ 210                | \$ (295)              | \$ 505 |

|                       | Nine fiscal months ended |                       |            |
|-----------------------|--------------------------|-----------------------|------------|
|                       | September 28,<br>2013    | September 29,<br>2012 | Change     |
| Foreign exchange loss | \$ (1,005)               | \$ (201)              | \$ (804)   |
| Interest income       | 191                      | 497                   | (306)      |
| Other                 | (259)                    | (281)                 | 22         |
|                       | \$ (1,073)               | \$ 15                 | \$ (1,088) |

### ***Income Taxes***

For the current quarter, fluctuations in the effective tax rate have generally been caused by the geographical earnings mix and the impact of discrete items that are required to be recognized within the respective interim reporting period. The effective tax rate for the fiscal quarter ended September 28, 2013 was (171.5)% versus 29.8% for the fiscal quarter ended September 29, 2012. The effective tax rate for the nine fiscal months ended September 28, 2013 was (11.9)% versus 29.9% for the nine fiscal months ended September 29, 2012. The primary change in the effective tax rate for both periods presented is the result of the recording of discrete items coupled with changes in the geographic mix of pretax earnings. For the fiscal quarter ending September 28, 2013, the Company recorded a net discrete tax benefit associated with changes in statutory tax rate and foreign exchange variations. In July, a new tax law was enacted in Israel which effectively increases the corporate income tax rate on certain types of income earned after January 1, 2014. Accordingly, the Company's net deferred tax assets in Israel were increased to reflect the higher rate which allowed the recording of a one-time benefit of \$1.3 million.

The effective tax rates reflect the fact that we could not recognize for accounting purposes the tax benefit of losses incurred in certain jurisdictions, although these losses may be available to offset future taxable income. We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. We give consideration to whether valuation allowances should be established against deferred tax assets based on all available evidence, both positive and negative, using a more likely than not standard. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with loss carryforwards not expiring and tax planning alternatives, as we operate and derive income across multiple jurisdictions. We may not recognize deferred tax assets for loss carryforwards in jurisdictions where there is a recent history of cumulative losses, where there is no taxable income in the carryback period, where there is insufficient evidence of future earnings to overcome the loss history and where there is no other positive evidence, such as the likely reversal of taxable temporary differences, that would result in the utilization of loss carryforwards for tax purposes.

We operate in an international environment with significant operations in various locations outside the U.S. Accordingly, the consolidated income tax rate is a composite rate reflecting our earnings and the applicable tax rates in the various locations where we operate. Part of our strategy is to achieve cost savings through the transfer and expansion of manufacturing operations to countries where we can benefit from lower labor costs and available tax and other government-sponsored incentives. Changes in the effective tax rate are largely attributable to changes in the mix of pretax income among our various taxing jurisdictions.

### **Financial Condition, Liquidity, and Capital Resources**

At December 31, 2012, we had a significant cash balance and limited third-party debt. This strategically positioned us for our acquisition of the KELK business in January 2013.

On January 31, 2013, we completed the acquisition of substantially all of the assets of the George Kelk Corporation for an aggregate purchase price of approximately \$49.0 million (CDN) (49.0 million USD), subject to working capital and other adjustments. In connection with the acquisition, and to fund a portion of the purchase price, we entered into an Amended and Restated Credit Agreement (the 2013 Credit Agreement). Under the terms of the 2013 Credit Agreement, our multi-currency, secured credit facility was revised and expanded to provide for the following facilities: (1) a secured revolving facility in an aggregate principal amount of \$15.0 million (the 2013 Revolving Facility), the proceeds of which may be used for general corporate purposes, with sublimits of (i) \$10.0 million which can be used for letters of credit for the account of the Company or its Canadian subsidiary (VPG Canada), and (ii) up to \$5.0 million which can be used for loans outstanding for up to 5 business days (Swing Loans); (2) a secured term facility for the Company, the proceeds of which are to be loaned by the Company to its subsidiaries to fund the KELK acquisition, in an aggregate principal amount of \$10.0 million (the U.S. Term Facility); and (3) a secured term facility for VPG Canada in an aggregate principal amount of \$15.0 million (the Canadian Term Facility). The aggregate principal amount of the 2013 Revolving Facility may be increased by a maximum of \$10.0 million upon the request of the Company, subject to the terms of the 2013 Credit Agreement. The 2013 Credit Agreement terminates on January 29, 2018. The term loans are being repaid in quarterly installments.

Interest payable on amounts borrowed under the 2013 Revolving Facility (other than with respect to Swing Loans), the U.S. Term Facility and the Canadian Term Facility (collectively, the Facilities) is based upon, at the Company's option, (1) the Agent's prime rate, the Federal Funds Rate, or a LIBOR floor (the Base Rate), or (2) LIBOR plus a specified margin. An interest margin of 0.25% is added to Base Rate loans. Depending upon the Company's leverage ratio, an interest rate margin ranging from 2.00% to 3.00% per annum is added to the applicable Base Rate or LIBOR rate to determine the interest payable on the Facilities. The Company is required to pay a quarterly fee of 0.30% per annum to 0.50% per annum on the unused portion of the 2013 Revolving Facility, which is determined based on the Company's leverage ratio each quarter. Additional customary fees apply with respect to letters of credit.

The obligations of the Company under the 2013 Credit Agreement are secured by pledges of stock in certain domestic and foreign subsidiaries, as well as guarantees by substantially all of the Company's domestic subsidiaries. The obligations of the Company and the guarantors under the 2013 Credit Agreement are secured by substantially all the assets (excluding real estate) of the Company and such guarantors. The Canadian Term Facility is secured by substantially all the assets of VPG Canada and by a secured guarantee by the Company and its domestic subsidiaries. The 2013 Credit Agreement restricts the Company from paying cash dividends and requires the Company to comply with other customary covenants, representations and warranties, including the maintenance of specific financial ratios. The financial maintenance covenants include (a) a tangible net worth of not less than \$118.0 million, plus 50% of cumulative net earnings for each fiscal quarter since inception, excluding quarterly net losses; (b) a leverage ratio of not more than 2.5 to 1.0; and (c) a fixed charges coverage ratio of not less than 1.5 to 1.0. We were in compliance with these covenants at September 28, 2013. If we are not in compliance with any of these covenant restrictions, the credit facility could be terminated by the lenders, and all amounts outstanding pursuant to the credit facility could become immediately payable.

Vishay Advanced Technologies Ltd. (VAT), an Israeli company and subsidiary of the Company, entered into a Credit Agreement (the Credit Agreement) with HSBC Bank Plc (the Lender) in November 2011 securing a multi-currency, secured revolving facility in an aggregate principal amount of \$15.0 million (the VAT Revolving Facility). The VAT Revolving Facility was amended on June 27, 2013 to revise certain covenants and the quarterly commitment fee paid on the unused portion of the facility. All other terms of the facility remained unchanged. The VAT Revolving Facility terminates on November 30, 2014. There was no balance outstanding on this facility at September 28, 2013 or December 31, 2012.

Interest payable on the VAT Revolving Facility is based upon LIBOR (VAT Base Rate). An interest rate margin of 2.15% per annum is added to the VAT Base Rate to determine the interest payable on the VAT Revolving Facility. VAT paid a one-time fee on the commitment and, as amended, is required to pay a quarterly fee of 0.40% per annum on the unused portion of the VAT Revolving Facility.

The Credit Agreement requires VAT to comply with customary covenants, representations and warranties, including the maintenance of specific financial ratios. During the first quarter of 2013, VAT was in compliance with the leverage ratio, but, as a result of the legal entity merger within Israel, reported in the Company's 2012 Annual Report on Form 10-K, VAT was not in compliance with the covenant for tangible net worth to total assets ratio and the covenant for minimum tangible shareholders' equity. The Company obtained a waiver from the Lender respecting such non-compliance as of March 30, 2013. VAT renegotiated the covenants associated with this facility during the second quarter of 2013. The revised financial maintenance covenants require VAT to maintain (a) a leverage ratio of not more than 2.5 to 1.0; (b) a tangible shareholders' equity of not less than \$48.0 million; and (c) a tangible net worth to total assets ratio of not less than 0.65 to 1.0. As of September 28, 2013, VAT was in compliance with its financial maintenance covenants. In the event of covenant non-compliance, the VAT Revolving Facility could be terminated by the Lender, and any amounts outstanding pursuant to the VAT Revolving Facility could become immediately payable.

Effective July 6, 2010, we issued approximately \$10.0 million aggregate principal amount of exchangeable notes pursuant to agreements entered into in connection with our spin-off from Vishay Intertechnology. The maturity date of these notes is December 13, 2102. Effective August 28, 2013, a holder of our exchangeable notes exercised its option to exchange approximately \$5.9 million principal amount of the notes for 259,687 shares of VPG common stock. Following this transaction, we have outstanding exchangeable unsecured notes with a principal amount of approximately \$4.1 million, which are exchangeable for an aggregate of 181,537 shares of VPG common stock.

Our other long-term debt is not significant and consists of zero percent interest rate debt held by our Japanese subsidiary of approximately \$1.1 million at September 28, 2013 and \$1.4 million at December 31, 2012.

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Our business has historically generated significant operating cash flow. Our cash from operating activities for the nine fiscal months ended September 28, 2013 was \$6.1 million, compared to \$13.5 million for the comparable prior year period.

We refer to the amount of cash generated from operations (\$6.1 million) in excess of our capital expenditure needs (\$3.9 million) and net of proceeds from the sale of assets (\$0.1 million) as free cash, a measure which management uses to evaluate our ability to fund acquisitions. For the nine fiscal months ended September 28, 2013, we generated free cash of \$2.3 million and believe that our current cash and cash equivalents, credit facilities and projected cash from operations will be sufficient to meet our liquidity needs for at least the next 12 months.

The following table summarizes the components of net cash (debt) at September 28, 2013 and December 31, 2012 (*in thousands*):

|  | September 28,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| Cash and cash equivalents                          | \$ 68,273             | \$ 93,881            |
| Third-party debt, including current and long-term: |                       |                      |
| Revolving credit facilities                        | -                     | -                    |
| Term loans   | 22,750                | -                    |
| Third-party debt held by Japanese subsidiary       | 1,078                 | 1,363                |
| Exchangeable notes due 2102                        | 4,097                 | 9,958                |
| Total third-party debt                             | 27,925                | 11,321               |
| Net cash   | \$ 40,348             | \$ 82,560            |

Measurements such as free cash and net cash (debt) do not have uniform definitions and are not recognized in accordance with U.S. GAAP. Such measures should not be viewed as alternatives to U.S. GAAP measures of performance or liquidity. However, management believes that free cash is a meaningful measure of our ability to fund acquisitions, and that an analysis of net cash (debt) assists investors in understanding aspects of our cash and debt management. These measures, as calculated by us, may not be comparable to similarly titled measures used by other companies.

Approximately 84% and 82% of our cash and cash equivalents balance at September 28, 2013 and December 31, 2012, respectively, was held by our non-U.S. subsidiaries. If cash is repatriated to the United States, we would be subject to additional U.S. income taxes (adjusted for foreign tax credits), state income taxes, incremental foreign income taxes, and withholding taxes payable to various foreign countries. See the following table for the percentage of cash and cash equivalents, by region, at September 28, 2013 and December 31, 2012:

|                | September<br>28,<br>2013 | December<br>31,<br>2012 |
|----------------|--------------------------|-------------------------|
| Israel         | 28%                      | 38%                     |
| Asia           | 22%                      | 17%                     |
| Europe         | 20%                      | 16%                     |
| United States  | 16%                      | 18%                     |
| United Kingdom | 8%                       | 11%                     |
| Other          | 6%                       | 0%                      |
|                | 100%                     | 100%                    |

Our financial condition as of September 28, 2013 remains strong, with a current ratio (current assets to current liabilities) of 4.3 to 1.0, as compared to a ratio of 5.8 to 1.0 at December 31, 2012. The decrease in the current ratio is primarily due to the cash outflow for the acquisition of KELK.

Cash paid for property and equipment for the nine fiscal months ended September 28, 2013 was \$3.9 million as compared to \$5.8 million in the comparable prior year period. Capital expenditures for the nine fiscal months ended September 28, 2013 are comprised of projects related to the normal maintenance of business. Capital expenditures for the nine fiscal months ended September 29, 2012 included carryover costs associated with several significant 2011 projects, including construction of our manufacturing facility in India and our new manufacturing line in the Foil Technology Products segment.

**Safe Harbor Statement**

From time to time, information provided by us, including but not limited to statements in this report, or other statements made by or on our behalf, may contain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. 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.

Such statements are based on current expectations only, and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, expected, estimated, or projected. Among the factors that could cause actual results to materially differ include: general business and economic conditions, changes in the current pace of economic recovery, including if such recovery stalls or does not continue as expected; difficulties or delays in completing acquisitions and integrating acquired companies, including KELK, the inability to realize anticipated synergies and expansion possibilities, difficulties in new product development; changes in competition and technology in the markets that we serve and the mix of our products required to address these changes; changes in foreign currency exchange rates; difficulties in implementing our ERP system and the associated impact on manufacturing efficiencies and customer satisfaction; difficulties in implementing our cost reduction strategies such as underutilization of production facilities, labor unrest or legal challenges to our lay-off or termination plans, operation of redundant facilities due to difficulties in transferring production to lower-labor-cost countries; and other factors affecting our operations, markets, products, services, and prices that are set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in the market risks previously disclosed in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on March 12, 2013.

**Item 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

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

**Changes in Internal Control over Financial Reporting**

During our last fiscal quarter ended September 28, 2013, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.



**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

Not applicable.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 12, 2013.

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

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

- 31.1 Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Ziv Shoshani, Chief Executive Officer.
- 31.2 Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 William M. Clancy, Chief Financial Officer.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Ziv Shoshani, Chief Executive Officer.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 William M. Clancy, Chief Financial Officer.
- 101 Interactive Data File (Quarterly Report on Form 10-Q, for the quarterly period ended September 28, 2013, furnished in XBRL (eXtensible Business Reporting Language).

**SIGNATURES**

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

VISHAY PRECISION GROUP, INC.

/s/ William M. Clancy  
William M. Clancy  
Executive Vice President and Chief Financial Officer  
(as a duly authorized officer and principal financial and accounting  
officer)

Date: November 6, 2013