

Vishay Precision Group, Inc.
Form 10-Q
November 08, 2016

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended October 1, 2016

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

Accelerated filer

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

Smaller reporting company

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

Yes No

As of November 8, 2016, the registrant had 12,167,045 shares of its common stock and 1,025,158 shares of its Class B convertible common stock outstanding.

VISHAY PRECISION GROUP, INC.
 FORM 10-Q
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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

VISHAY PRECISION GROUP, INC.

Consolidated Condensed Balance Sheets

(In thousands)

	October 1, 2016 (Unaudited)	December 31, 2015 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 56,133	\$62,641
Accounts receivable, net	34,889	35,553
Inventories:		
Raw materials	16,119	15,062
Work in process	21,913	20,289
Finished goods	20,300	20,849
Inventories, net	58,332	56,200
Prepaid expenses and other current assets	9,678	7,814
Assets held for sale	2,043	—
Total current assets	161,075	162,208
Property and equipment, at cost:		
Land	3,498	3,639
Buildings and improvements	46,128	55,003
Machinery and equipment	88,697	84,409
Software	7,379	7,284
Construction in progress	3,199	2,288
Accumulated depreciation	(94,521)	(95,992)
Property and equipment, net	54,380	56,631
Goodwill	19,305	12,603
Intangible assets, net	22,438	17,683
Other assets	14,789	14,622
Total assets	\$ 271,987	\$263,747

Continues on the following page.

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

	October 1, 2016	December 31, 2015
	(Unaudited)	
Liabilities and equity		
Current liabilities:		
Trade accounts payable	\$ 8,687	\$8,004
Payroll and related expenses	12,854	13,888
Other accrued expenses	15,607	16,604
Income taxes	1,387	527
Current portion of long-term debt	2,277	2,120
Total current liabilities	40,812	41,143
Long-term debt, less current portion	34,457	31,037
Deferred income taxes	623	334
Other liabilities	7,892	7,195
Accrued pension and other postretirement costs	11,309	11,597
Total liabilities	95,093	91,306
Commitments and contingencies		
Equity:		
Common stock	1,278	1,276
Class B convertible common stock	103	103
Treasury stock	(8,765	) (8,765)
Capital in excess of par value	190,801	190,436
Retained earnings	25,726	22,327
Accumulated other comprehensive loss	(32,451	) (33,121)
Total Vishay Precision Group, Inc. stockholders' equity	176,692	172,256
Noncontrolling interests	202	185
Total equity	176,894	172,441
Total liabilities and equity	\$ 271,987	\$ 263,747

See accompanying notes.

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VISHAY PRECISION GROUP, INC.

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

	Fiscal quarter ended	
	October	September
	1, 2016	26, 2015
Net revenues	\$54,490	\$57,149
Costs of products sold	34,225	35,699
Gross profit	20,265	21,450
Selling, general, and administrative expenses	16,917	17,760
Impairment of goodwill and indefinite-lived intangibles	—	4,942
Restructuring costs	709	459
Operating income (loss)	2,639	(1,711)
Other income (expense):		
Interest expense	(377)	(158)
Other	(44)	(387)
Other income (expense) - net	(421)	(545)
Income (loss) before taxes	2,218	(2,256)
Income tax expense (benefit)	1,135	(304)
Net earnings (loss)	1,083	(1,952)
Less: net earnings (loss) attributable to noncontrolling interests	32	(9)
Net earnings (loss) attributable to VPG stockholders	\$1,051	\$(1,943)
Basic earnings (loss) per share attributable to VPG stockholders	\$0.08	\$(0.15)
Diluted earnings (loss) per share attributable to VPG stockholders	\$0.08	\$(0.15)
Weighted average shares outstanding - basic	13,192	13,347
Weighted average shares outstanding - diluted	13,422	13,347

See accompanying notes.

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

	Nine fiscal months ended	
	October 1, 2016	September 26, 2015
Net revenues	\$169,115	\$173,265
Costs of products sold	107,580	109,801
Gross profit	61,535	63,464
Selling, general, and administrative expenses	53,409	54,904
Acquisition costs	414	—
Impairment of goodwill and indefinite-lived intangibles	—	4,942
Restructuring costs	2,395	841
Operating income	5,317	2,777
Other income (expense):		
Interest expense	(1,076)	(518)
Other	351	(1,730)
Other income (expense) - net	(725)	(2,248)
Income before taxes	4,592	529
Income tax expense	1,164	174
Net earnings	3,428	355
Less: net earnings (loss) attributable to noncontrolling interests	29	(38)
Net earnings attributable to VPG stockholders	\$3,399	\$393
Basic earnings per share attributable to VPG stockholders	\$0.26	\$0.03
Diluted earnings per share attributable to VPG stockholders	\$0.25	\$0.03
Weighted average shares outstanding - basic	13,185	13,558
Weighted average shares outstanding - diluted	13,409	13,772

See accompanying notes.

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VISHAY PRECISION GROUP, INC.

Consolidated Condensed Statements of Comprehensive Income (Loss)
(Unaudited - In thousands)

	Fiscal quarter ended	
	October 1, 2016	September 26, 2015
Net earnings (loss)	\$1,083	\$(1,952)
Other comprehensive income (loss):		
Foreign currency translation adjustment	(496)	(2,352)
Pension and other postretirement actuarial items, net of tax	130	164
Other comprehensive loss	(366)	(2,188)
Total comprehensive income (loss)	717	(4,140)
Less: comprehensive income (loss) attributable to noncontrolling interests	32	(9)
Comprehensive income (loss) attributable to VPG stockholders	\$685	\$(4,131)

See accompanying notes.

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VISHAY PRECISION GROUP, INC.

Consolidated Condensed Statements of Comprehensive Income (Loss)

(Unaudited - In thousands)

	Nine fiscal months ended	
	October 1, 2016	September 26, 2015
Net earnings	\$3,428	\$ 355
Other comprehensive income (loss):		
Foreign currency translation adjustment	167	(5,032)
Pension and other postretirement actuarial items, net of tax	503	293
Other comprehensive income (loss)	670	(4,739)
Comprehensive income (loss)	4,098	(4,384)
Less: comprehensive income (loss) attributable to noncontrolling interests	29	(38)
Comprehensive income (loss) attributable to VPG stockholders	\$4,069	\$(4,346)

See accompanying notes.

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

	Nine fiscal months ended	
	October 1, 2016	September 26, 2015
Operating activities		
Net earnings	\$3,428	\$ 355
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Impairment of goodwill and indefinite-lived intangibles	—	4,942
Depreciation and amortization	8,416	8,142
(Gain) loss on disposal of property and equipment	(24	) 14
Share-based compensation expense	465	796
Inventory write-offs for obsolescence	1,410	1,190
Deferred income taxes	(1,537	) (914)
Other	(862	) 2,190
Net changes in operating assets and liabilities:		
Accounts receivable, net	2,139	(1,182)
Inventories, net	(2,891	) (5,159)
Prepaid expenses and other current assets	(1,848	) 290
Trade accounts payable	453	(2,256)
Other current liabilities	(2,657	) (3,104)
Net cash provided by operating activities	6,492	5,304
Investing activities		
Capital expenditures	(6,266	) (7,508)
Proceeds from sale of property and equipment	316	117
Purchase of business	(10,727) —
Net cash used in investing activities	(16,677	) (7,391)
Financing activities		
Principal payments on long-term debt and capital leases	(1,599	) (3,839)
Proceeds from revolving facility	17,000	—
Payments on revolving facility	(12,000) —
Purchase of treasury stock	—	(8,733)
Distributions to noncontrolling interests	(12	) (58)
Net cash provided by (used in) financing activities	3,389	(12,630)
Effect of exchange rate changes on cash and cash equivalents	288	(1,751)
Decrease in cash and cash equivalents	(6,508	) (16,468)
Cash and cash equivalents at beginning of period	62,641	79,642
Cash and cash equivalents at end of period	\$56,133	\$ 63,174

See accompanying notes.

VISHAY PRECISION GROUP, INC.

Consolidated Condensed Statement of Equity

(Unaudited - In thousands, except share amounts)

	Common Stock	Class B Convertible Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total VPG, Inc. Stockholders Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2015	\$ 1,276	\$ 103	\$(8,765)	\$190,436	\$22,327	\$(33,121)	\$ 172,256	\$ 185	\$172,441
Net earnings	—	—	—	—	3,399	—	3,399	29	3,428
Other comprehensive income	—	—	—	—	—	670	670	—	670
Share-based compensation expense	—	—	—	465	—	—	465	—	465
Restricted stock issuances (22,560 shares)	2	—	—	(100)	—	—	(98)	—	(98)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(12)	(12)
Balance at October 1, 2016	\$ 1,278	\$ 103	\$(8,765)	\$190,801	\$25,726	\$(32,451)	\$ 176,692	\$ 202	\$176,894

See accompanying notes.

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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 sensors, and sensor-based measurement systems, as well as specialty resistors and strain gages based upon the Company's proprietary technology. The Company provides precision products and solutions, many of which are “designed-in” by its customers, specializing in the growing markets of stress, force, weight, pressure, and current measurements.

Restatement of Previously Reported Financial Information

As previously reported in its Annual Report on Form 10-K for the fiscal year ended December 31, 2015, in conjunction with the June 27, 2015 quarterly financial statement close process, the Company determined that transactions at one of its Indian subsidiaries had been recorded in their local currency, the Indian rupee, instead of their functional currency, the U.S. dollar, in prior periods. The principal line items impacted in the Indian subsidiary’s financial statements, and therefore the Company's consolidated financial statements, were inventory, property and equipment, net, depreciation expense, costs of products sold, foreign currency re-measurement gains and losses, and foreign currency translation gains and losses recorded as a component of accumulated other comprehensive income within stockholders’ equity. Consequently, the Company restated certain prior period amounts to correct these errors. The Company also corrected certain other identified immaterial errors related to prior periods.

In preparing the Company’s consolidated financial statements for the quarterly and year to date period ended June 27, 2015 and for each of the three years in the period ended December 31, 2015, the Company made appropriate revisions to its financial statements for historical periods. Such changes were reflected in the financial results for the quarterly and year to date period ended June 27, 2015, and are also reflected in the historical financial results included in these consolidated financial statements. Additional information about these corrections, including a reconciliation of each financial statement line item affected, has been included in Note 12 to the Company’s consolidated condensed financial statements contained in its Quarterly Report on Form 10-Q for the period ended June 27, 2015.

Interim Financial Statements

These unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the 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 consolidated financial statements and notes thereto as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, included in VPG’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 9, 2016. The results of operations for the fiscal quarter and nine fiscal months ended October 1, 2016 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 2016 and 2015 end on the following dates:

2016	2015
Quarter 1 April 2,	March 28,
Quarter 2 July 2,	June 27,
Quarter 3 October 1,	September 26,
Quarter 4 December 31,	December 31,

During the second quarter of 2016, the Karmiel, Israel facility met the criteria necessary to classify it and the related assets as held for sale. The net assets related to the Karmiel, Israel facility were presented on the Consolidated

Condensed Balance Sheets as Assets held for sale as of October 1, 2016 and reduced land, buildings and improvements, and accumulated depreciation by \$0.1 million, \$9.8 million, and \$7.9 million, respectively.

Note 1 – Basis of Presentation (continued)

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” This ASU is intended to clarify the presentation of certain cash receipts and payments within the statement of cash flows. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the new standard to determine the impact on the Company’s consolidated condensed financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting.” This ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted. The Company is evaluating the new standard to determine the impact on the Company’s consolidated condensed financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” a comprehensive new lease standard that amends various aspects of existing accounting guidance for leases. The core principle of this ASU will require lessees to present the assets and liabilities that arise from leases on their balance sheets. The ASU is effective for public companies for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the new standard to determine the impact on the Company’s consolidated condensed financial statements.

In September 2015, the FASB issued ASU No. 2015-16, “Business Combinations (Topic 805),” which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendment will be effective prospectively for reporting periods beginning on or after December 15, 2015, and therefore was adopted on January 1, 2016. The adoption of this standard update is not expected to have a material impact on the Company’s consolidated condensed financial statements.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory (Topic 330),” which simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The ASU is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the new standard to determine if this guidance will have a material impact on the Company’s consolidated condensed financial statements.

In April 2015, the FASB issued ASU 2015-03, “Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” This standard update requires an entity to present debt issuance costs on the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. The update is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015. The Company adopted this ASU in the first fiscal quarter of 2016. Accordingly, the Company reclassified its capitalized debt issuance costs previously recorded within other assets to a contra-liability reducing long-term debt on the consolidated condensed balance sheets. The reclassification was \$0.6 million as of December 31, 2015. The ASU did not have a material impact on the Company’s consolidated condensed financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers,” which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that will supersede most current revenue recognition guidance. The basis of the guidance is that an entity should recognize

revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU is effective for public entities for annual and interim periods beginning after December 15, 2017. The ASU may be early adopted for annual and interim periods beginning after December 15, 2016 under U.S. generally accepted accounting principles ("GAAP"), and either full or modified retrospective application is required. The Company has not yet selected a transition method and the effects of this standard on the Company's financial position, results of operations and cash flows are not yet known.

Note 2 – Acquisition Activity

Pacific Instruments, Inc.

On April 6, 2016, the Company completed the acquisition of Pacific Instruments, Inc. ("Pacific") for an aggregate purchase price of \$10.7 million, subject to customary post-closing adjustments. Pacific is a designer and manufacturer of high-performance data acquisition systems and has extensive experience integrating large, high performance data acquisition and control systems. Pacific sells primarily to the aerospace, commercial aviation and defense markets and mainly in the United States. Pacific provides installation, facility integration, training, and on-going technical support for their manufactured products. Pacific products expand the offerings of our Foil Technology Products reporting segment, which already offers data acquisition systems, primarily in the field of strain measurement.

The following table summarizes the preliminary fair values assigned to the assets and liabilities of Pacific as of April 6, 2016 (in thousands):

	April 6, 2016
Working capital ^(a)	\$686
Property and equipment	26
Long-term deferred income tax liability	(1,993)
Intangible assets:	
Patents and acquired technology	1,300
Non-competition agreements	40
Customer relationships	3,500
Trade names	700
Total intangible assets	5,540
Fair value of acquired identifiable assets and liabilities	4,259
Purchase price	\$10,727
Goodwill	\$6,468

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

The Company utilizes certain valuations and studies to determine the fair value of the tangible and intangible assets acquired. These valuations and studies are currently being analyzed and have yet to be finalized. Accordingly, the assets and liabilities assumed as detailed above, are subject to adjustment once the detailed analysis is completed.

The Company has preliminarily determined the useful lives of the assets acquired. The estimated weighted average useful lives for the patents and acquired technology, non-competition agreements, and customer relationships are 20 years, 6.5 years, and 15 years, respectively.

The Company has recorded \$0.4 million in acquisition costs on the consolidated condensed statement of operations related to Pacific through October 1, 2016. Costs include accounting, legal, appraisal and other fees.

Stress-Tek, Inc.

On December 30, 2015, the Company completed the acquisition of Stress-Tek, Inc. ("Stress-Tek"), based in Kent, Washington, for an aggregate purchase price of \$20.1 million, subject to customary post-closing adjustments. Stress-Tek is a designer and manufacturer of state-of-the-art, rugged and reliable strain gage-based load cells and force measurement systems primarily servicing the North American market. Their sensors and display systems are used in a wide range of industries, predominantly in transportation and trucking, for timber, refuse, aggregate, mining, and general trucking applications. Stress-Tek adds new products to the Company's Weighing and Control Systems reporting segment, which enhances and broadens the Company's on-board weighing offerings with products that are recognized for high quality in their markets.

Note 2 – Acquisition Activity (continued)

The following table summarizes the preliminary fair values assigned to the assets and liabilities as of the December 30, 2015 acquisition date. The amounts presented below were updated from the fourth quarter of 2015, but remain preliminary (in thousands):

	As originally reported December 30, 2015	Adjustments	Adjusted
Working capital ^(a)	\$ 2,479	\$ 85	\$ 2,564
Property and equipment	6,338	—	6,338
Intangible assets:			
Patents and acquired technology	1,600	—	1,600
Non-competition agreements	60	—	60
Customer relationships	2,500	—	2,500
Trade names	700	—	700
Total intangible assets	4,860	—	4,860
Fair value of acquired identifiable assets	13,677	85	13,762
Purchase price	\$ 20,101	\$ (48)	\$ 20,053
Goodwill	\$ 6,424	\$ (133)	\$ 6,291

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

The Company utilizes certain valuations and studies to determine the fair value of the tangible and intangible assets acquired. These valuations and studies are currently being analyzed and have yet to be finalized. Accordingly, the assets and liabilities assumed, as detailed above, are subject to adjustment once the detailed analysis is completed.

The Company has preliminarily determined the useful lives of the assets acquired. The estimated weighted average useful lives for the patents and acquired technology, non-competition agreements, and customer relationships are 20 years, 5 years, and 15 years, respectively.

The Company has recorded cumulative acquisition costs of \$0.2 million associated with this transaction, the majority of which were recorded in the fiscal year ended December 31, 2015 consolidated financial statements. Costs include accounting, legal, appraisal, and other fees.

Note 3 – Goodwill

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

	Total	Weighing and Control Systems Segment	KELK Stress-Tek Acquisition	Foil Technology Products Segment Pacific Acquisition
Balance at December 31, 2015	\$ 12,603	\$ 6,179	\$ 6,424	\$ —
Goodwill acquired	6,468	—	—	6,468
Adjustment to goodwill acquired	(133)	—	(133)	—
Foreign currency translation adjustment	367	367	—	—
Balance at October 1, 2016	\$ 19,305	\$ 6,546	\$ 6,291	\$ 6,468

Note 4 – Restructuring Costs

Restructuring costs represent the cost reduction programs initiated 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.

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Note 4 – Restructuring Costs (continued)

The Company recorded aggregate restructuring costs of \$0.7 million and \$0.5 million during the fiscal quarters ended October 1, 2016 and September 26, 2015, respectively, and \$2.4 million and \$0.8 million during the fiscal nine months ended October 1, 2016 and September 26, 2015, respectively. Restructuring costs consist mainly of employee termination costs, including severance and statutory retirement allowances and facility closure costs.

On March 23, 2016, the Company announced, in connection with the November 16, 2015 global cost reduction program, the decision to close its facility in Alajuela, Costa Rica. Approximately \$0.4 million of restructuring costs were recorded during the nine fiscal months ended October 1, 2016 related to this closure. This closure was substantially complete at the end of the third quarter of 2016.

On November 16, 2015, the Company announced a global cost reduction program as part of its efforts to improve efficiency and operating performance. Approximately \$0.4 million of restructuring costs, excluding the Costa Rica closure, were recorded during the nine fiscal months ended October 1, 2016 related to this program. Complete implementation of this program is expected to occur by the end of the second quarter of 2017.

During the fiscal nine months ended October 1, 2016, the Company initiated other cost reduction plans at locations in Europe, the U.S. and Canada. Approximately \$1.6 million of restructuring costs, primarily severance, were recorded during the nine fiscal months ended October 1, 2016 related to these plans.

The following table summarizes the activity related to all restructuring programs. The accrued restructuring liability balance as of October 1, 2016 and December 31, 2015, respectively, is included in other accrued expenses in the accompanying consolidated condensed balance sheets (in thousands):

Balance at December 31, 2015	\$2,827
Restructuring costs in 2016	2,395
Cash payments	(3,603)
Foreign currency translation	1
Balance at October 1, 2016	\$1,620

Note 5 – Income Taxes

VPG calculates the tax provision for interim periods using an estimated annual effective tax rate methodology based on projected full-year pre-tax earnings among the taxing jurisdictions in which we operate with adjustments for discrete items. The effective tax rate for the fiscal quarter ended October 1, 2016 was 51.2% compared to 13.5% for the fiscal quarter ended September 26, 2015. The effective tax rate for the nine fiscal months ended October 1, 2016 was 25.3% compared to 32.9% for the nine fiscal months ended September 26, 2015. The tax rate in the current fiscal quarter is higher than the prior year fiscal quarter primarily because a tax benefit was not recorded in the current quarter with respect to U.S. losses. A tax benefit for U.S. losses was recorded in the prior year fiscal quarter. In the fourth quarter of 2015, the Company established a full valuation allowance with respect to its U.S. deferred tax assets since realization was not more likely than not. The lower tax rate for the nine fiscal months ended October 1, 2016 is primarily attributable to a \$1.6 million reduction in the valuation allowance related to U.S. deferred tax assets. The reduction in the valuation allowance was recorded in the second fiscal quarter of 2016 and relates to deferred tax liabilities established in connection with the Pacific acquisition. The lower 2016 tax rate attributable to the valuation allowance reduction is partially offset by a tax rate increase caused by not recording a tax benefit for 2016 for U.S. tax losses. A tax benefit was recorded for U.S. losses in the 2015 nine month period. The effective tax rate for the nine fiscal months in 2016 is also higher than the prior year as a result of withholding taxes on the distribution of earnings from certain foreign subsidiaries and changes in the geographic mix of pre-tax earnings partially offset by lower tax liabilities for uncertain tax positions related to the expiration of the statute of limitations in certain jurisdictions.

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 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 a reduction in the liability for unrecognized tax benefits between \$0.2 million to \$1.2 million within twelve months of the balance sheet date due to cash payments, the potential completion of tax examinations, and the potential for the expiration of statutes of limitation in certain jurisdictions.

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Note 6 – Long-Term Debt

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

	October 1, 2016	December 31, 2015
2015 Credit Agreement - Revolving Facility	\$9,000	\$4,000
2015 Credit Agreement - U.S. Closing Date Term Facility	4,221	4,500
2015 Credit Agreement - U.S. Delayed Draw Term Facility	10,319	11,000
2015 Credit Agreement - Canadian Term Facility	8,960	9,500
Exchangeable Unsecured Notes, due 2102	4,097	4,097
Other debt	623	614
Deferred financing costs	(486)	(554)
Total long-term debt	36,734	33,157
Less: current portion	2,277	2,120
Long-term debt, less current portion	\$34,457	\$31,037

Note 7 – Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), net of tax, consist of the following (in thousands):

	Foreign Currency Translation Adjustment	Pension and Other Postretirement Actuarial Items	Total
Balance at January 1, 2016	\$ (28,704)	\$ (4,417)	\$(33,121)
Other comprehensive income before reclassifications	167	—	167
Amounts reclassified from accumulated other comprehensive income (loss)	—	503	503
Balance at October 1, 2016	\$ (28,537)	\$ (3,914)	\$(32,451)
	Foreign Currency Translation Adjustment	Pension and Other Postretirement Actuarial Items	Total
Balance at January 1, 2015	\$ (21,757)	\$ (4,803)	\$(26,560)
Other comprehensive loss before reclassifications	(5,032)	—	(5,032)
Amounts reclassified from accumulated other comprehensive income (loss)	—	293	293
Balance at September 26, 2015	\$ (26,789)	\$ (4,510)	\$(31,299)
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 8).			

Note 8 – Pension and Other Postretirement Benefits

Employees of VPG participate in various defined benefit pension and other postretirement benefit ("OPEB") plans. The following table sets forth the components of the net periodic benefit cost for the Company's defined benefit pension and other postretirement benefit plans (in thousands):

	Fiscal quarter ended		Fiscal quarter ended	
	October 1, 2016		September 26, 2015	
	Pension Plans	OPEB Plans	Pension Plans	OPEB Plans
Net service cost	\$101	\$ 25	\$104	\$ 19
Interest cost	192	33	217	30
Expected return on plan assets	(153)	—	(167)	—
Amortization of actuarial losses	48	19	59	19
Net periodic benefit cost	\$188	\$ 77	\$213	\$ 68

	Nine fiscal months ended		Nine fiscal months ended	
	October 1, 2016		September 26, 2015	
	Pension Plans	OPEB Plans	Pension Plans	OPEB Plans
Net service cost	\$307	\$ 75	\$310	\$ 57
Interest cost	602	97	644	90
Expected return on plan assets	(486)	—	(493)	—
Amortization of actuarial losses	151	57	175	57
Net periodic benefit cost	\$574	\$ 229	\$636	\$ 204

Note 9 – Share-Based Compensation

The Amended and Restated Vishay Precision Group, Inc. Stock Incentive Program (as amended and restated, the "Plan") permits the issuance of up to 1,000,000 shares of common stock. At October 1, 2016, the Company had reserved 355,235 shares of common stock for future grant of equity awards (restricted stock, unrestricted stock, restricted stock units ("RSUs"), or stock options) pursuant to the Plan. If any outstanding awards are forfeited by the holder or canceled by the Company, the underlying shares would be available for re-grant to others.

On January 19, 2016, VPG's three executive officers were granted annual equity awards in the form of RSUs, of which 75% are performance-based. The awards have an aggregate grant-date fair value of \$0.9 million and were comprised of 86,798 RSUs, as determined using the average of the closing stock prices of the Company's common stock for the last five trading days immediately preceding January 1, 2016. Twenty-five percent of these awards will vest on January 1, 2019, subject to the executives' continued employment. The performance-based portion of the RSUs will also vest on January 1, 2019, subject to the satisfaction of certain performance objectives relating to three-year cumulative "free cash" and net earnings goals, and the executives' continued employment.

On March 29, 2016, certain VPG employees were granted annual equity awards in the form of RSUs, of which 75% are performance-based. The awards have an aggregate grant-date fair value of \$0.4 million and were comprised of 25,613 RSUs. Twenty-five percent of these awards will vest on January 1, 2019 subject to the employees' continued employment. The performance-based portion of the RSUs will also vest on January 1, 2019, subject to the satisfaction of certain performance objectives relating to three-year cumulative earnings and cash flow goals, and the employees' continued employment.

On March 24, 2016 and April 2, 2016, the Board of Directors approved the issuance of an aggregate of 525 RSUs and 417 RSUs, respectively, to the newly appointed independent members of the Board of Directors. These awards

represented a pro-rated portion of the annual equity grant made to non-executive directors pursuant to the Plan. The aggregate grant-date fair value of these awards was immaterial. These RSUs vested on May 26, 2016.

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Note 9 – Share-Based Compensation (continued)

On May 26, 2016, the Board of Directors approved the issuance of an aggregate of 16,178 RSUs to the independent members of the Board of Directors and to the non-executive Chairman of the Board of Directors. The awards have an aggregate grant-date fair value of \$0.2 million and will vest on May 26, 2017, subject to the directors' continued service on the Board of Directors.

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. The Company recognizes compensation cost for RSUs that are expected to vest and for which performance criteria are expected to be met. The following table summarizes share-based compensation expense recognized (in thousands):

	Fiscal quarter ended		Nine fiscal months ended	
	October 2016	September 2015	October 2016	September 2015
Restricted stock units	\$(83)	\$ 380	\$465	\$ 796

During the third quarter of 2016, it was determined that certain performance objectives associated with awards granted in 2014, 2015 and 2016 to executives and certain other employees were not likely to be fully met. As a result, share-based compensation expense of \$0.5 million associated with those performance objectives was reversed based on anticipated performance levels. For the nine months ended October 1, 2016, a total of \$0.7 million in share-based compensation expense has been reversed, based on anticipated performance levels. A similar adjustment was also made in 2015, reducing share-based compensation expense by \$0.1 million for the nine months ended September 26, 2015.

Note 10 – 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.

VPG evaluates reporting segment performance based on multiple performance measures including revenues, gross profits 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):

Note 10 – Segment Information (continued)

	Fiscal quarter ended		Nine fiscal months ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net third-party revenues:				
Foil Technology Products	\$23,852	\$27,000	\$75,530	\$78,216
Force Sensors	15,231	14,580	45,465	45,462
Weighing and Control Systems	15,407	15,569	48,120	49,587
Total	\$54,490	\$57,149	\$169,115	\$173,265
Gross profit:				
Foil Technology Products	\$8,639	\$11,331	\$29,092	\$32,053
Force Sensors	4,716	3,058	11,903	9,354
Weighing and Control Systems	6,910	7,061	20,540	22,057
Total	\$20,265	\$21,450	\$61,535	\$63,464
Reconciliation of segment operating income to consolidated results:				
Foil Technology Products	\$3,894	\$7,024	\$14,839	\$19,096
Force Sensors	2,865	892	5,481	2,326
Weighing and Control Systems	2,997	2,354	7,114	6,866
Unallocated G&A expenses	(6,408)	(6,580)	(19,308)	(19,728)
Acquisition costs	—	—	(414)	—
Impairment of goodwill and indefinite-lived intangibles	—	(4,942)	—	(4,942)
Restructuring costs	(709)	(459)	(2,395)	(841)
Consolidated condensed operating income (loss)	\$2,639	\$(1,711)	\$5,317	\$2,777
Acquisition costs:				
Foil Technology Products	\$—	\$—	\$(391)	\$—
Weighing and Control Systems	—	—	(23)	—
	\$—	\$—	\$(414)	\$—
Impairment of goodwill and indefinite-lived intangibles:				
Weighing and Control Systems	—	(4,942)	—	(4,942)
	\$—	\$(4,942)	\$—	\$(4,942)
Restructuring costs:				
Foil Technology Products	\$(416)	\$(135)	\$(1,134)	\$(135)
Force Sensors	(78)	(295)	(379)	(599)
Weighing and Control Systems	(192)	(29)	(724)	(107)
Corporate/Other	(23)	—	(158)	—
	\$(709)	\$(459)	\$(2,395)	\$(841)

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 \$0.8 million and \$0.5 million during the fiscal quarters ended October 1, 2016 and September 26, 2015, respectively, and \$1.9 million and \$2.0 million during the nine fiscal months ended October 1, 2016 and September 26, 2015, respectively. Intersegment sales from the Force Sensors segment to the Foil Technology Products segment and Weighing and Control Systems

Note 10 – Segment Information (continued)

segment were \$0.5 million and \$0.5 million during the fiscal quarters ended October 1, 2016 and September 26, 2015, respectively, and \$1.5 million and \$1.5 million during the nine fiscal months ended October 1, 2016 and September 26, 2015, respectively. Intersegment sales from the Weighing and Control Systems segment to the Force Sensors segment were \$0.2 million and \$0.2 million during the fiscal quarters ended October 1, 2016 and September 26, 2015, respectively, and \$0.7 million and \$0.7 million during the nine fiscal months ended October 1, 2016 and September 26, 2015, respectively.

Note 11 – 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	
	October 2016	September 26, 2015	October 1, 2016	September 26, 2015
Numerator:				
Numerator for basic earnings per share:				
Net earnings attributable to VPG stockholders	\$1,051	\$(1,943)	\$3,399	\$ 393
Adjustment to the numerator for net earnings:				
Interest savings assuming conversion of dilutive exchangeable notes, net of tax	4	—	12	5
Numerator for diluted earnings per share:				
Net earnings attributable to VPG stockholders	\$1,055	\$(1,943)	\$3,411	\$ 398
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	13,192	13,347	13,185	13,558
Effect of dilutive securities:				
Exchangeable notes	181	—	181	181
Restricted stock units	49	—	43	33
Dilutive potential common shares	230	—	224	214
Denominator for diluted earnings per share:				
Adjusted weighted average shares	13,422	13,347	13,409	13,772
Basic earnings per share attributable to VPG stockholders	\$0.08	\$(0.15)	\$0.26	\$ 0.03
Diluted earnings per share attributable to VPG stockholders	\$0.08	\$(0.15)	\$0.25	\$ 0.03
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	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Weighted average employee stock options	18	—	18	18

Note 12 – 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	
	October 2016	September 26, 2015	October 2016	September 26, 2015
Foreign exchange gain (loss)	\$(59)	\$ (448)	\$436	\$(1,686)
Interest income	42	61	145	152
Other	(27)	—	(230)	(196)
	\$(44)	\$ (387)	\$351	\$(1,730)

Note 13 – 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 table provides the financial assets and liabilities carried at fair value measured on a recurring basis (in thousands):

	Fair value measurements at reporting date using:			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
October 1, 2016				
Assets				
Assets held in rabbi trusts	\$4,722	\$551	\$4,171	\$ —

December 31, 2015

Assets				
Assets held in rabbi trusts	\$4,676	\$739	\$3,937	\$ —

The Company maintains non-qualified trusts, referred to as “rabbi” trusts, to fund payments under deferred compensation and non-qualified pension plans. Rabbi trust assets consist primarily of marketable securities, classified as available-for-sale money market funds at October 1, 2016 and December 31, 2015, 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, excluding capitalized deferred financing costs, at October 1, 2016 and December 31, 2015 is approximately \$36.5 million and \$31.9 million, respectively, compared to its carrying value, excluding capitalized deferred financing costs, of \$37.2 million and \$33.7 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 whose carrying amounts reported in the consolidated condensed balance sheets approximate their fair values.

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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 sensors, and sensor-based measurement systems, as well as specialty resistors and strain gages based upon our proprietary technology. We provide precision products and solutions, many of which are "designed-in" by our customers, specializing in the growing markets of stress, force, weight, pressure, and current measurements. A significant portion of our products and solutions are primarily based upon our proprietary foil technology and are produced as part of our vertically integrated structure. We believe this strategy results in higher quality, more cost effective and focused solutions for our customers. Our 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 geographic locations that also optimize our resources for specific technologies, sensors, assemblies, and systems. The Company also has a long heritage of innovation in 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. Our advanced sensor product line continues this heritage by offering high-quality foil strain gages produced in a proprietary, highly automated environment. 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 marketplaces. This expertise served as a foundation for our expansion into strain gage instrumentation, load cells, transducers, weighing modules, and complete systems for process control and on-board weighing. Although our products are typically used in the industrial market, we believe our advanced sensors may find application outside the industrial market.

The precision sensor market is integral to the development of intelligent products across a wide variety of end markets upon which we focus, including medical, agricultural, transportation, industrial, avionics, military, and space applications. We believe that as original equipment manufacturers ("OEMs") continue a drive to make products "smarter," they will integrate more sensors and related systems into their solutions to link the mechanical/physical world with digital control and/or response. We believe this offers a substantial growth opportunity for our products and expertise. 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.

As previously reported in our Quarterly Report on Form 10-Q for the period ended June 27, 2015, the Company determined that transactions at one of its Indian subsidiaries had been recorded in their local currency, the Indian rupee, instead of their functional currency, the U.S. dollar, in prior periods. Consequently, the Company restated prior period amounts to correct these errors, as well as certain other immaterial errors related to prior periods. All prior periods presented in this report reflect the impact of this restatement.

In December 2015, we completed the acquisition of Stress-Tek, Inc. ("Stress-Tek"). Stress-Tek is a designer and manufacturer of state-of-the-art strain gage-based load cells and force measurement systems primarily serving the North American market. The results of operations of Stress-Tek are included in the Weighing and Control Systems reporting segment in our consolidated condensed financial statements beginning January 1, 2016.

In April 2016, we completed the acquisition of Pacific Instruments, Inc. ("Pacific"), a designer and manufacturer of high performance data acquisition systems. The results of operations of Pacific are included in the Foil Technology Products reporting segment in our consolidated condensed financial statements beginning April 6, 2016.

Net revenues for the fiscal quarter ended October 1, 2016 were \$54.5 million versus \$57.1 million for the comparable prior year period. Net earnings attributable to VPG stockholders for the fiscal quarter ended October 1, 2016 were \$1.1 million, or \$0.08 per diluted share, versus \$(1.9) million, or \$(0.15) per diluted share, for the comparable prior year period.

Net revenues for the nine fiscal months ended October 1, 2016 were \$169.1 million versus \$173.3 million for the comparable prior year period. Net earnings attributable to VPG stockholders for the nine fiscal months ended

October 1, 2016 were \$3.4 million, or \$0.25 per diluted share, versus \$0.4 million, or \$0.03 per diluted share, for the comparable prior year period.

The results of operations for the fiscal quarters and nine fiscal months ended October 1, 2016 and September 26, 2015 include items affecting comparability as listed in the reconciliations below. The reconciliations below include certain financial measures which are not recognized in accordance with U.S. generally accepted accounting principles ("GAAP") including adjusted gross

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profit, adjusted gross profit margin, adjusted net earnings and adjusted net earnings per diluted share. These non-GAAP measures should not be viewed as an alternative to GAAP measures of performance. Non-GAAP measures such as adjusted gross profit, adjusted gross profit margin, adjusted net earnings and adjusted net earnings per diluted share do not have uniform definitions. These measures, as calculated by VPG, may not be comparable to similarly titled measures used by other companies. Management believes that these measures are meaningful because they provide insight with respect to intrinsic operating results. The reconciling items presented below represent significant charges or credits which are important to understanding our intrinsic operations.

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

	Fiscal quarter ended		Nine fiscal months ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Gross profit	\$20,265	\$21,450	\$61,535	\$63,464
Gross profit margin	37.2 %	37.5 %	36.4 %	36.6 %
Reconciling items affecting gross profit margin				
Acquisition purchase accounting adjustments ^(a)	46	—	537	26
Adjusted gross profit	\$20,311	\$21,450	\$62,072	\$63,490
Adjusted gross profit margin	37.3 %	37.5 %	36.7 %	36.6 %
			Fiscal quarter ended	Nine fiscal months ended
			October 1, 2016	September 26, 2015
Net earnings (loss) attributable to VPG stockholders	\$1,051	\$(1,943)	\$3,399	\$393
Reconciling items affecting operating margin				
Acquisition purchase accounting adjustments ^(a)	46	—	537	26
Acquisition costs	—	—	414	—
Strategic alternative evaluation costs ^(b)	1,079	—	1,079	—
Impairment of goodwill and indefinite-lived intangibles	—	4,942	—	4,942
Restructuring costs	709	459	2,395	841
Reconciling items affecting income tax expense				
Less tax effect of reconciling items and discrete tax items	(27)	(1,081)	(1,317)	(1,137)
Adjusted net earnings attributable to VPG stockholders	\$2,858	\$2,377	\$6,507	\$5,065
Adjusted net earnings per diluted share	\$0.21	\$0.18	\$0.49	\$0.37
Weighted average shares outstanding - diluted	13,422	13,347	13,409	13,772

(a) Acquisition purchase accounting adjustments, recorded in connection with the acquisition of the Stress-Tek and Pacific, include fair market value adjustments associated with inventory.

(b) The Company is evaluating strategic alternatives to enhance stockholder value, and in connection with such evaluation, has incurred professional fees during the fiscal quarter and nine fiscal months ended October 1, 2016. There are no assurances that the evaluation will result in any particular strategic alternative.

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 tables show 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 and by segment during the five quarters beginning with the third quarter of 2015 through the third quarter of 2016 (dollars in thousands):

	3rd Quarter 2015	4th Quarter 2015	1st Quarter 2016	2nd Quarter 2016	3rd Quarter 2016
Net revenues	\$57,149	\$58,913	\$56,629	\$57,996	\$54,490
Gross profit margin	37.5	% 35.2	% 34.9	% 37.1	% 37.2
End-of-period backlog	\$52,200	\$48,800	\$52,000	\$51,400	\$50,300
Book-to-bill ratio	0.97	0.95	1.03	0.98	0.98
Inventory turnover	2.54	2.77	2.62	2.52	2.36

	3rd Quarter 2015	4th Quarter 2015	1st Quarter 2016	2nd Quarter 2016	3rd Quarter 2016
Foil Technology Products					
Net revenues	\$27,000	\$26,244	\$26,319	\$25,359	\$23,852
Gross profit margin	42.0 %	36.5 %	42.3 %	36.8 %	36.2 %
End-of-period backlog	\$23,400	\$22,500	\$22,400	\$23,800	\$23,600
Book-to-bill ratio	0.90	0.97	0.98	1.01	0.99
Inventory turnover	2.83	2.99	2.67	2.65	2.57
Force Sensors					
Net revenues	\$14,580	\$15,586	\$14,838	\$15,396	\$15,231
Gross profit margin	21.0 %	20.2 %	18.4 %	29.0 %	31.0 %
End-of-period backlog	\$11,600	\$11,500	\$12,500	\$11,700	\$12,000
Book-to-bill ratio	1.03	1.00	1.06	0.97	1.02
Inventory turnover	1.82	2.06	2.15	1.97	1.84
Weighing and Control Systems					
Net revenues	\$15,569	\$17,083	\$15,472	\$17,241	\$15,407
Gross profit margin	45.4 %	47.0 %	38.3 %	44.7 %	44.9 %
End-of-period backlog	\$17,200	\$14,800	\$17,100	\$15,900	\$14,700
Book-to-bill ratio	1.05	0.89	1.11	0.94	0.92
Inventory turnover	3.84	4.15	3.50	3.27	2.98

Net revenues for the third quarter of 2016 decreased \$3.5 million, or 6.0%, from the net revenues reported in the second quarter of 2016, and decreased \$2.7 million, or 4.7%, compared to net revenues for the comparable prior year period.

Sequentially, net revenues were down in all three reporting segments with the Foil Technology Products and Weighing and Control Systems segments showing the greatest decline. Foil Technology Products segment revenues were down due to lower volume in the test and measurements and precision weighing market sectors. Weighing and Control Systems segment revenues were down in our process weighing and steel businesses, and were additionally hampered by negative currency impacts, primarily from the British pound.

Net revenues for the third quarter of 2016, which include additional revenues from our two recent acquisitions, were negatively impacted by the decrease in volume in the Foil Technology Products and Weighing and Control Systems segments as compared to the third quarter of 2015. This decrease in volume is predominantly related to the test and measurement and precision weighing market sectors in the Foil Technology Products segment and the European onboard weighing sector in the Weighing and Control Systems segment. These decreases were offset by an improvement in Force Sensors force measurement market segment. Negative currency impacts, primarily from the British pound, also impacted the Weighing and Control systems segment.

The gross profit margin in the third quarter of 2016 increased 0.1% as compared to the second quarter of 2016 and decreased 0.3% from the third quarter of 2015.

Gross profit margin as compared to the second quarter of 2016 reflects improvements in the Force Sensors segment due to the realization of cost savings from our cost reduction programs, which included headcount reductions and relocation of manufacturing, and a favorable product mix. When compared to the third quarter of 2015, Force Sensors contributed a significant improvement in gross margin due to the realization of cost savings and higher volume. This improvement in Force Sensors is almost completely offset by the decrease in the gross profit margin in the Foil Technology Products segment. The Foil Technology Products segment has been impacted by a significant decrease in volume in the test and measurements and precision weighing market sectors.

Optimize Core Competence

The Company's core competency and key value proposition is providing customers with proprietary foil technology products and precision measurement sensors and sensor-based systems. Our foil technology resistors and strain gages are recognized as global market leading products that provide high precision and high stability over extreme temperature ranges and long life. Our force

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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 as part of our advanced sensors product line. We believe this new 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 advanced sensors manufacturing technology offers us the capability to produce high-quality foil strain gages in a highly automated environment, which we expect to result in reduced manufacturing and lead times, and increased margins. The expected benefits of this highly automated approach are the basis for a significant portion of the restructuring efforts which we implemented in the past year.

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. We also seek to achieve significant production cost savings through the transfer, expansion, and construction of manufacturing operations in countries such as India and Israel, where we can benefit from lower labor costs, improved efficiencies, or available tax and other government-sponsored incentives. For example, we continue to relocate our force sensor manufacturing from leased locations with higher labor cost to the owned facility we constructed in India. This consolidation of operations is part of our global restructuring and cost reduction program announced in 2015 and expanded in 2016.

Acquisition Strategy

We expect to continue to make strategic acquisitions where opportunities present themselves to grow our segments. Historically, our growth and acquisition strategy has been largely focused on vertical product integration, using our foil strain gages in our force sensor products, and incorporating those products into our weighing and control systems. The acquisitions of Stress-Tek and KELK, each of which employ our foil strain gages to manufacture load cells for their systems, continued this strategy. Additionally, the KELK acquisition resulted in the acquisition of certain optical sensor technology. Along with our recent success in microelectromechanical ("MEMS") technology for on-board weighing, we expect to expand our expertise, and our acquisition focus, outside of our traditional vertical approach to other precision sensor solutions in the fields of measurement of force, weight, pressure, torque, tilt, motion, and acceleration. We believe acquired businesses will benefit from improvements we implement to reduce redundant functions and from our current global manufacturing and distribution footprint.

On April 6, 2016, we acquired Pacific, a designer and manufacturer of high performance data acquisition systems and has extensive experience integrating large, high performance data acquisition and control systems. Pacific sells primarily to the aerospace, commercial aviation and defense markets and mainly in the United States. Pacific provides installation, facility integration, training, and on-going technical support for their manufactured products. Pacific products provide an extension to our Foil Technology Products segment, which already offers data acquisition systems, primarily in the field of strain measurement.

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.

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-cost countries to lower-cost countries and consolidating to fewer locations. This may enable us to become more efficient and cost competitive, and also maintain tighter controls over 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 with the Securities and Exchange Commission (“SEC”) on March 9, 2016.

The Company recorded restructuring costs of \$0.7 million and \$2.4 million during the fiscal quarter and nine fiscal months ended October 1, 2016, respectively. These costs related to cost reduction programs in the United States, Costa Rica, Canada, Sweden, France, United Kingdom, China, and the Netherlands. Restructuring costs consist mainly of employee termination costs, including severance and statutory retirement allowances, and facility closure costs.

We are evaluating plans to further reduce our costs by consolidating additional manufacturing operations. These plans may 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.

Goodwill

We test the goodwill in each of our reporting units for impairment at least annually, and whenever events or changes in circumstances occur indicating that a possible impairment may have been incurred. Determining whether to test goodwill for impairment, and the application of goodwill impairment tests, require significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Changes in these estimates could materially affect the determination of fair value for each reporting unit. A slowdown or deferral of orders for a business, with which we have goodwill associated, could impact our valuation of that goodwill. For instance, if the slowdown in the steel industry persists, it may impact our valuation of goodwill within our Weighing and Control Systems segment in future periods.

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. GAAP requires 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

Our operations in Europe, Canada, and certain locations in Asia primarily generate and expend cash 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 balance sheets have been translated at the rate of exchange as of the balance sheet date. Translation adjustments do not impact the results of operations and are reported as a separate component of equity.

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 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 primarily generate cash 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 October 1, 2016, exchange rates reduced net revenues by \$0.5 million, and costs of products sold and selling, general, and administrative expenses by \$0.5 million, when compared to the comparable

prior year period. For the nine fiscal months ended October 1, 2016, exchange rates reduced net revenues by \$1.8 million, and costs of products sold and selling, general, and administrative expenses by \$2.0 million, when compared to the comparable prior year period.

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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	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Costs of products sold	62.8%	62.5 %	63.6%	63.4 %
Gross profit	37.2%	37.5 %	36.4%	36.6 %
Selling, general, and administrative expenses	31.0%	31.1 %	31.6%	31.7 %
Operating income	4.8 %	(3.0)%	3.1 %	1.6 %
Income before taxes	4.1 %	(3.9)%	2.7 %	0.3 %
Net earnings	2.0 %	(3.4)%	2.0 %	0.2 %
Net earnings attributable to VPG stockholders	1.9 %	(3.4)%	2.0 %	0.2 %
Effective tax rate	51.2%	13.5 %	25.3%	32.9 %

Net Revenues

Net revenues were as follows (dollars in thousands):

	Fiscal quarter ended		Nine fiscal months ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net revenues	\$54,490	\$ 57,149	\$169,115	\$ 173,265
Change versus comparable prior year period	\$(2,659)		\$(4,150)	
Percentage change versus prior year period	(4.7)%		(2.4)%	

Changes in net revenues were attributable to the following:

	vs. prior year	vs. prior year-quarter to-date
Change attributable to:		
Change in volume	(8.8)%	(6.1)%
Change in average selling prices	0.2 %	0.1 %
Foreign currency effects	(0.9)%	(1.0)%
Acquisitions	4.8 %	4.6 %
Net change	(4.7)%	(2.4)%

During the fiscal quarter ended October 1, 2016, net revenues decreased 4.7% as compared to the comparable prior year period. An increase in revenues from the acquisitions of Stress-Tek and Pacific was offset by volume decreases in the Foil Technology Products and Weighing and Control Systems segments. The decrease in volume is predominantly in the test and measurement and precision weighing market sectors for the Foil Technology Product segment and in process weighing and steel market sectors for the Weighing and Control Systems segment.

During the nine fiscal months ended October 1, 2016, net revenues decreased 2.4% as compared to the comparable prior year period. An improvement in revenues, aided by the added revenues from the Stress-Tek and Pacific acquisitions, was offset by volume declines in the Foil Technology Products and Weighing and Control Systems segments.

Gross Profit Margin

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

Fiscal quarter ended	Nine fiscal months ended
October 1, 2016	September 26, 2015
37.2%	37.5%
36.4%	36.6%

Gross profit margin 37.2% 37.5 % 36.4% 36.6 %

The gross profit margin for the fiscal quarter and nine fiscal months ended October 1, 2016 was flat compared to the comparable prior year periods. The improved gross margins in the Force Sensors segment, reflecting the favorable impact of the cost reduction programs, were offset by lower gross margins in both the Foil Technology Products and Weighing and Control Systems segments.

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	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net revenues	\$23,852	\$ 27,000	\$75,530	\$ 78,216
Change versus comparable prior year period	\$(3,148)		\$(2,686)	
Percentage change versus prior year period	(11.7)%		(3.4)%	

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

	vs. prior year quarter	vs. prior year-to-date
Change attributable to:		
Change in volume	(15.3)%	(6.5)%
Change in average selling prices	0.1 %	0.2 %
Foreign currency effects	0.9 %	0.7 %
Acquisitions	2.6 %	2.2 %
Net change	(11.7)%	(3.4)%

Net revenues decreased 11.7% and 3.4%, respectively, for the fiscal quarter and nine fiscal months ended October 1, 2016, as compared to the comparable prior year periods. Added revenues from the acquisition of Pacific were offset by lower volume from OEM customers in the test and measurement market sector.

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

Fiscal quarter ended	Nine fiscal months ended
October 1, 2016	September 26, 2015
36.2%	42.0%
38.5%	41.0%

Gross profit margin 36.2% 42.0 % 38.5% 41.0 %

The gross profit margin decreased for the fiscal quarter and nine fiscal months ended October 1, 2016, respectively, when compared to the comparable prior year periods due to lower volume and labor inefficiencies related to the expansion of our advanced sensors platform.

Force Sensors

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

	Fiscal quarter ended		Nine fiscal months ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net revenues	\$15,231	\$ 14,580	\$45,465	\$ 45,462
Change versus comparable prior year period	\$651		\$3	
Percentage change versus prior year period	4.5 %		0.0 %	

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

	vs. prior year	vs. prior year-quarter to-date
Change attributable to:		
Change in volume	6.3 %	1.7 %
Change in average selling prices	0.0 %	(0.3)%
Foreign currency effects	(1.8)%	(1.4)%
Net change	4.5 %	0.0 %

Net revenues increased 4.5% for the fiscal quarter ended October 1, 2016, as compared to the comparable prior year period, mainly due to higher volume in the force measurement market sector. Net revenues for the nine fiscal months ended October 1, 2016 were flat compared to the comparable prior year period. Higher volume was offset by negative foreign currency impacts relating to the British pound.

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

	Fiscal quarter ended		Nine fiscal months ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Gross profit margin	31.0%	21.0 %	26.2%	20.6 %

The gross profit margin for the fiscal quarter and nine fiscal months ended October 1, 2016 increased from the comparable prior year periods mainly due to cost savings measures, including headcount reductions through plant closures and relocations, and due to increased volume in the fiscal quarter.

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	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net revenues	\$15,407	\$ 15,569	\$48,120	\$ 49,587
Change versus comparable prior year period	\$(162)		\$(1,467)	
Percentage change versus prior year period	(1.0)%		(3.0)%	

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

	vs. prior year quarter	vs. prior year- to-date
Change attributable to:		
Change in volume	(11.1)%	(12.3)%
Change in average selling prices	0.4 %	0.3 %
Foreign currency effects	(3.5)%	(3.6)%
Acquisitions	13.2 %	12.6 %
Net change	(1.0)%	(3.0)%

Net revenues decreased for the fiscal quarter and nine fiscal months ended October 1, 2016, as compared to the comparable prior year periods. The increase in volume from the acquisition of Stress-Tek was offset by declines in volume for the remainder of the segment, mainly from the process weighing and steel businesses. Foreign currency effects also negatively impacted net revenues in both periods, mainly related to the British pound for both periods and to the Canadian dollar for the nine month period.

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	
	October 2016	September 26, 2015	October 1, 2016	September 26, 2015

Gross profit margin 44.9% 45.4 % 42.7% 44.5 %

The gross profit margin for the fiscal quarter ended October 1, 2016 decreased compared to the comparable prior year period, mainly due to negative exchange rate impacts.

The gross profit margin for the nine fiscal months ended October 1, 2016, decreased from the comparable prior year period mainly due to lower revenues in the process weighing and steel businesses and negative foreign currency impacts. Additionally, Stress-Tek purchase accounting adjustments of \$0.4 million were recorded during the nine fiscal months ended October 1, 2016. Excluding the purchase accounting adjustments, the gross margin percentage would have been 43.6%.

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	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Total SG&A expenses	\$16,917	\$17,760	\$53,409	\$54,904

as a percentage of net revenues 31.0 % 31.1 % 31.6 % 31.7 %

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 October 1, 2016 were lower as compared to the comparable prior year period. Reductions in personnel costs including headcount reductions from the cost reduction programs, bonus accrual adjustments and adjustments to share based compensation expense offset the increase in SG&A of \$1.1 million in costs associated with evaluation of strategic alternatives to enhance stockholder value and \$1.2 million associated with the operations of Stress-Tek, which was acquired on December 30, 2015 and Pacific, which was acquired on April 6, 2016.

SG&A expenses for the nine fiscal months ended October 1, 2016 were lower as compared to the comparable prior year period. Reductions in personnel costs including headcount reductions from the cost reduction programs, bonus accrual adjustments, adjustments to share based compensation expense, and favorable impacts from foreign currency effects, offset the increase in SG&A of \$1.1 million in costs associated with evaluation of strategic alternatives to

enhance stockholder value and \$3.2 million associated with the operations of Stress-Tek, which was acquired on December 30, 2015 and Pacific, which was acquired on April 6, 2016.

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Acquisition Costs

In connection with the acquisitions of Stress-Tek and Pacific, we recorded acquisition costs of \$0.4 million in our consolidated condensed financial statements during the nine fiscal months ended October 1, 2016. No acquisition costs were recorded during the fiscal quarter ended October 1, 2016. No acquisition costs were recorded in the fiscal quarter and nine fiscal months ended September 26, 2015.

Restructuring Costs

Restructuring costs represent the cost reduction programs initiated 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.

On November 16, 2015, the Company announced a cost reduction program as part of its efforts to improve efficiency and operating performance. The Company anticipates annual savings of approximately \$6.0 million, which began in 2016. Approximate cost savings realized as of October 1, 2016 were \$5.3 million. Complete implementation of this program is expected to occur by the end of the second quarter of 2017.

On March 23, 2016, the Company announced, in connection with the November 16, 2015 global cost reduction program, the decision to close its facility in Alajuela, Costa Rica. The Company anticipates annual savings of approximately \$0.7 million in 2016. This closure was substantially complete at the end of the third quarter of 2016. The Company recorded restructuring costs of \$0.7 million and \$2.4 million during the fiscal quarter and nine fiscal months ended October 1, 2016, respectively. These costs consist mainly of employee termination costs, including severance, and facility closure costs in the United States, Costa Rica, Canada, Sweden, France, United Kingdom, China, and the Netherlands. The restructuring costs recorded during the fiscal quarter and nine fiscal months ended September 26, 2015, consisted of employee termination costs, including severance, in Asia, United Kingdom, United States, Canada, and Israel.

Other Income (Expense)

Total interest expense for the fiscal quarter and nine fiscal months ended October 1, 2016 was higher than interest expense in the comparable prior year periods, mainly due to higher debt associated with funding the acquisitions of Stress-Tek and Pacific, which were completed on December 30, 2015 and April 6, 2016, respectively.

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

	Fiscal quarter ended		
	October 2016	September 26, 2015	Change
Foreign exchange gain (loss)	\$(59)	\$ (448)	\$ 389
Interest income	42	61	(19)
Other	(27)	—	(27)
	\$(44)	\$ (387)	\$ 343
	Nine fiscal months ended		
	October 2016	September 26, 2015	Change
Foreign exchange gain (loss)	\$436	\$ (1,686)	\$ 2,122
Interest income	145	152	(7)
Other	(230)	(196)	(34)
	\$351	\$ (1,730)	\$ 2,081

Foreign currency exchange gains and losses represent the impact of changes in foreign currency exchange rates. For the quarter ended October 1, 2016, the change in foreign exchange gains and losses during the period, as compared to the prior year period, is largely due to exposure to currency fluctuations with the Canadian dollar. For the nine fiscal months ended October 1, 2016, the change in foreign exchange gains and losses during the period, as compared to the prior year period, is largely due to exposure to currency fluctuations with the British pound and the Canadian dollar. A substantial portion of the Canadian dollar currency fluctuation is due to a U.S. dollar denominated term facility maintained by our Canadian subsidiary.

Income Taxes

The effective tax rate for the fiscal quarter ended October 1, 2016 was 51.2% compared to 13.5% for the fiscal quarter ended September 26, 2015. The effective tax rate for the nine fiscal months ended October 1, 2016 was 25.3% compared to 32.9% for the nine fiscal months ended September 26, 2015. The tax rate in the current fiscal quarter is higher than the prior year fiscal quarter primarily because a tax benefit was not recorded in the current quarter with respect to U.S. losses. A tax benefit for U.S. losses was recorded in the prior year fiscal quarter. In the fourth quarter of 2015, we established a full valuation allowance with respect to our U.S. deferred tax assets since realization was not more likely than not. The lower tax rate for the nine fiscal months ended October 1, 2016 is primarily attributable to a \$1.6 million reduction in the valuation allowance related to U.S. deferred tax assets. The reduction in the valuation allowance was recorded in the second fiscal quarter of 2016 and relates to deferred tax liabilities established in connection with the Pacific acquisition. The lower 2016 tax rate attributable to the valuation allowance reduction is partially offset by a tax rate increase caused by not recording a tax benefit for 2016 for U.S. tax losses. A tax benefit was recorded for U.S. losses in the 2015 nine month period. The effective tax rate for the nine fiscal months in 2016 is also higher than the prior year as a result of withholding taxes on the distribution of earnings from certain foreign subsidiaries and changes in the geographic mix of pre-tax earnings partially offset by lower tax liabilities for uncertain tax positions related to the expiration of the statute of limitations in certain jurisdictions.

We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. We consider 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, and our ability to identify feasible tax planning strategies. Deferred tax assets may not be recognized in jurisdictions where there is a history of cumulative losses, where there is no taxable income in the carryback period, where there is insufficient evidence to support future earnings and where there is no other positive evidence, such as the likely reversal of taxable temporary differences, that would result in the

utilization of deferred tax assets.

Financial Condition, Liquidity, and Capital Resources

We focus on our ability to generate cash flows from operations. The cash generated from operations is used to fund our capital expenditure plans, and cash in excess of capital expenditure needs is available to fund our acquisition strategy and to reduce debt levels.

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At October 1, 2016 and December 31, 2015, we had significant cash balances and available credit. We 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.

In December 2015, we entered into a second amended and restated credit agreement. The terms of our credit agreement provide for the following facilities: (1) a secured revolving facility of \$30.0 million (which may be increased by a maximum of \$15.0 million at our request, subject to terms of the credit agreement), the proceeds of which can be used for working capital and general corporate purposes, with a sublimit of \$10.0 million for letters of credit; (2) a secured closing date term facility of \$4.5 million for the Company; (3) a secured delayed draw term facility of \$11.0 million for the Company; and (4) a secured term facility of \$9.5 million for Vishay Precision Group Canada ULC ("VPG Canada"), our Canadian subsidiary. The credit agreement terminates on December 30, 2020. The term loans are being repaid in quarterly installments.

Per our credit agreement, borrowings under all facilities bear interest at either, upon our option, (1) a base rate which is the greater of the agent's prime rate, the Federal Funds rate, or a LIBOR floor, plus a margin of 0.25% or (2) LIBOR plus, depending upon our leverage ratio, an interest rate margin ranging from 2.00% to 3.00%. We are also required to pay a quarterly fee of 0.30% per annum to 0.50% per annum on the unused portion of the secured revolving facility, which is determined based on our leverage ratio each quarter. Additional customary fees apply with respect to letters of credit.

The obligations of VPG and the guarantors under our credit agreement are secured by substantially all the assets (excluding real estate) of VPG, and by pledges of stock in certain domestic and foreign subsidiaries, as well as guarantees by substantially all of our domestic subsidiaries and the assets (excluding real estate) of the guarantors. The VPG Canada term facility is secured by substantially all the assets of VPG Canada, and by a secured guarantee of VPG and our domestic subsidiaries. The credit agreement restricts us from paying cash dividends, and requires us to comply with other customary covenants, representations, and warranties, including the maintenance of specific financial ratios. The financial maintenance covenants include a tangible net worth ratio, a leverage ratio, and a fixed charges coverage ratio. We were in compliance with these covenants at October 1, 2016. If we are not in compliance with any of these covenant restrictions, the credit agreement could be terminated by the lenders, and all amounts outstanding pursuant to the credit agreement could become immediately payable.

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. The maturity date of these notes is December 13, 2102.

Our other long-term debt is not significant and consists of zero percent interest rate debt held by our Japanese subsidiary of approximately \$0.6 million at October 1, 2016 and \$0.6 million at December 31, 2015, respectively. Due to our strong product portfolio and market position, our business has historically generated operating cash flow. For the nine fiscal months ended October 1, 2016, cash provided by operating activities was \$6.5 million. This includes \$3.6 million of restructuring payments made during the nine month period. Our cash provided by operating activities for the nine fiscal months ended September 26, 2015 was \$5.3 million.

As of October 1, 2016, our free cash was \$0.5 million. We refer to the amount of cash provided by operating activities (\$6.5 million) in excess of our capital expenditures (\$6.3 million) and net of proceeds from the sale of assets (\$0.3 million) as "free cash," a measure which management uses to evaluate our ability to fund acquisitions and repay debt. Free cash is also used as a metric for certain of our performance-based equity compensation awards.

The following table summarizes the components of net cash (debt) at October 1, 2016 and December 31, 2015 (in thousands):

	October 1, December 31,	
	2016	2015
Cash and cash equivalents	\$ 56,133	\$ 62,641
Third-party debt, including current and long-term:		
Term loans	23,500	25,000
Revolving debt	9,000	4,000

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Third-party debt held by Japanese subsidiary	623	614
Exchangeable notes, due 2102	4,097	4,097
Total third-party debt	37,220	33,711
Net cash	\$ 18,913	\$ 28,930

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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 repay debt, as well as to measure performance under certain of our equity compensation awards. In addition, management believes 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 88% and 90% of our cash and cash equivalents balance at October 1, 2016 and December 31, 2015, respectively, was held by our non-U.S. subsidiaries. If cash is repatriated to the United States, we could be subject to additional U.S. income taxes potentially offset by 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 October 1, 2016 and December 31, 2015:

	October		December	
	1,	31,	1,	31,
	2016	2015	2016	2015
Israel	11 %	24 %		
Asia	31 %	26 %		
Europe	22 %	17 %		
United States	12 %	10 %		
United Kingdom	16 %	13 %		
Canada	8 %	10 %		
	100 %	100 %		

Our financial condition as of October 1, 2016 remains strong, with a current ratio (current assets to current liabilities) of 3.9 to 1.0, as compared to a ratio of 3.9 to 1.0 at December 31, 2015.

Cash paid for property and equipment for the nine fiscal months ended October 1, 2016 was \$6.3 million as compared to \$7.5 million in the comparable prior year period. Capital expenditures for the nine fiscal months ended October 1, 2016 are comprised of projects related to the normal maintenance of business and expansion related to the production of a certain product line.

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; difficulties or delays in completing acquisitions and integrating acquired companies (including the acquisitions of Stress-Tek and Pacific); 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-cost countries; resources expended in connection with evaluation of strategic alternatives to enhance stockholder value; 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, 2015. We undertake no obligation to publicly update or revise any forward-looking statements, whether

as a result of new information, future events, or otherwise.

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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, 2015, filed with the SEC on March 9, 2016.

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 October 1, 2016, 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

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 9, 2016. The risks described in our Form 10-K are not the only risks that we face. Additional risks not presently known to us, or that we do not currently consider significant, may also have an adverse effect on us. If any of the risks actually occur, our business, results of operations, cash flows or financial condition could suffer.

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 October 1, 2016, 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 8, 2016