

Vishay Precision Group, Inc.  
Form 10-Q  
August 07, 2014

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 28, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-34679

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 August 7, 2014, the registrant had 12,730,946 shares of its common stock and 1,025,176 shares of its Class B convertible common stock outstanding.

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

## Item 1. Financial Statements

## VISHAY PRECISION GROUP, INC.

## Consolidated Condensed Balance Sheets

(In thousands)

|   | June 28, 2014<br>(Unaudited) | December 31,<br>2013 |
|---|------------------------------|----------------------|
| Assets                                    |                              |                      |
| Current assets:                           |                              |                      |
| Cash and cash equivalents                 | \$72,455                     | \$72,785             |
| Accounts receivable, net                  | 45,316                       | 40,500               |
| Inventories:                              |                              |                      |
| Raw materials                             | 14,504                       | 15,223               |
| Work in process                           | 21,106                       | 19,962               |
| Finished goods                            | 19,040                       | 19,788               |
| Inventories, net                          | 54,650                       | 54,973               |
| Deferred income taxes                     | 2,683                        | 4,784                |
| Prepaid expenses and other current assets | 11,006                       | 10,500               |
| Total current assets                      | 186,110                      | 183,542              |
| Property and equipment, at cost:          |                              |                      |
| Land                                      | 2,029                        | 1,993                |
| Buildings and improvements                | 48,559                       | 47,793               |
| Machinery and equipment                   | 77,912                       | 75,644               |
| Software                                  | 6,650                        | 6,333                |
| Construction in progress                  | 1,310                        | 1,252                |
| Accumulated depreciation                  | (87,540)                     | (83,692)             |
| Property and equipment, net               | 48,920                       | 49,323               |
| Goodwill                                  | 18,844                       | 18,880               |
| Intangible assets, net                    | 21,149                       | 22,458               |
| Other assets                              | 19,956                       | 17,901               |
| Total assets                              | \$294,979                    | \$292,104            |

Continues on the following page.

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

|   | June 28, 2014<br>(Unaudited) | December 31,<br>2013 |
|---|------------------------------|----------------------|
| Liabilities and equity                                  |                              |                      |
| Current liabilities:                                    |                              |                      |
| Trade accounts payable                                  | \$10,050                     | \$10,258             |
| Payroll and related expenses                            | 14,291                       | 15,016               |
| Other accrued expenses                                  | 14,906                       | 15,814               |
| Income taxes  | 363                          | 615                  |
| Current portion of long-term debt                       | 4,641                        | 4,137                |
| Total current liabilities                               | 44,251                       | 45,840               |
| Long-term debt, less current portion                    | 20,393                       | 22,936               |
| Deferred income taxes                                   | 1,030                        | 1,259                |
| Other liabilities                                       | 7,977                        | 7,738                |
| Accrued pension and other postretirement costs          | 10,720                       | 10,780               |
| Total liabilities                                       | 84,371                       | 88,553               |
| Commitments and contingencies                           |                              |                      |
| Equity:   |                              |                      |
| Common stock  | 1,273                        | 1,271                |
| Class B convertible common stock                        | 103                          | 103                  |
| Capital in excess of par value                          | 189,084                      | 188,424              |
| Retained earnings                                       | 37,814                       | 32,647               |
| Accumulated other comprehensive income (loss)           | (17,815)                     | (19,027)             |
| Total Vishay Precision Group, Inc. stockholders' equity | 210,459                      | 203,418              |
| Noncontrolling interests                                | 149                          | 133                  |
| Total equity  | 210,608                      | 203,551              |
| Total liabilities and equity                            | \$294,979                    | \$292,104            |

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 |               |
|---|----------------------|---------------|
|   | June 28, 2014        | June 29, 2013 |
| Net revenues  | \$65,162             | \$62,837      |
| Costs of products sold                                      | 40,465               | 41,277        |
| Gross profit  | 24,697               | 21,560        |
| Selling, general, and administrative expenses               | 19,918               | 18,565        |
| Acquisition costs   | —                    | 208           |
| Restructuring costs   | 7                    | —             |
| Operating income  | 4,772                | 2,787         |
| Other income (expense):                                     |                      |               |
| Interest expense  | (236)                | (298)         |
| Other   | (147)                | (907)         |
| Other income (expense) - net                                | (383)                | (1,205)       |
| Income before taxes   | 4,389                | 1,582         |
| Income tax expense  | 936                  | 292           |
| Net earnings  | 3,453                | 1,290         |
| Less: net loss attributable to noncontrolling interests     | (8)                  | (20)          |
| Net earnings attributable to VPG stockholders               | \$3,461              | \$1,310       |
| Basic earnings per share attributable to VPG stockholders   | \$0.25               | \$0.10        |
| Diluted earnings per share attributable to VPG stockholders | \$0.25               | \$0.09        |
| Weighted average shares outstanding - basic                 | 13,756               | 13,392        |
| Weighted average shares outstanding - diluted               | 13,968               | 13,947        |

See accompanying notes.

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## VISHAY PRECISION GROUP, INC.

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

|   | Six fiscal months ended |               |   |
|---|-------------------------|---------------|---|
|   | June 28, 2014           | June 29, 2013 |   |
| Net revenues  | \$126,203               | \$120,298     |   |
| Costs of products sold                                      | 79,459                  | 78,769        |   |
| Gross profit  | 46,744                  | 41,529        |   |
| Selling, general, and administrative expenses               | 38,618                  | 36,362        |   |
| Acquisition costs   | —                       | 695           |   |
| Restructuring costs   | 331                     | 388           |   |
| Operating income  | 7,795                   | 4,084         |   |
| Other income (expense):                                     |                         |               |   |
| Interest expense  | (448                    | ) (495        | ) |
| Other   | (689                    | ) (1,283      | ) |
| Other income (expense) - net                                | (1,137                  | ) (1,778      | ) |
| Income before taxes   | 6,658                   | 2,306         |   |
| Income tax expense  | 1,432                   | 580           |   |
| Net earnings  | 5,226                   | 1,726         |   |
| Less: net earnings attributable to noncontrolling interests | 59                      | 29            |   |
| Net earnings attributable to VPG stockholders               | \$5,167                 | \$1,697       |   |
| Basic earnings per share attributable to VPG stockholders   | \$0.38                  | \$0.13        |   |
| Diluted earnings per share attributable to VPG stockholders | \$0.37                  | \$0.12        |   |
| Weighted average shares outstanding - basic                 | 13,754                  | 13,389        |   |
| Weighted average shares outstanding - diluted               | 13,963                  | 13,938        |   |

See accompanying notes.

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VISHAY PRECISION GROUP, INC.

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

|   | Fiscal quarter ended |               |
|---|----------------------|---------------|
|   | June 28, 2014        | June 29, 2013 |
| Net earnings  | \$3,453              | \$1,290       |
| Other comprehensive income (loss):                                |                      |               |
| Foreign currency translation adjustment                           | 1,442                | (3,539 )      |
| Pension and other postretirement actuarial items, net of tax      | (11                  | ) 84          |
| Other comprehensive income (loss)                                 | 1,431                | (3,455 )      |
| Total comprehensive income (loss)                                 | 4,884                | (2,165 )      |
| Less: comprehensive loss attributable to noncontrolling interests | (8                   | ) (20 )       |
| Comprehensive income (loss) attributable to VPG stockholders      | \$4,892              | \$(2,145 )    |

See accompanying notes.

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VISHAY PRECISION GROUP, INC.

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

|   | Six fiscal months ended |               |
|---|-------------------------|---------------|
|   | June 28, 2014           | June 29, 2013 |
| Net earnings  | \$5,226                 | \$1,726       |
| Other comprehensive income (loss):                                  |                         |               |
| Foreign currency translation adjustment                             | 1,218                   | (6,801 )      |
| Pension and other postretirement actuarial items, net of tax        | (6 )                    | ) 279         |
| Other comprehensive income (loss)                                   | 1,212                   | (6,522 )      |
| Total comprehensive income (loss)                                   | 6,438                   | (4,796 )      |
| Less: comprehensive income attributable to noncontrolling interests | 59                      | 29            |
| Comprehensive income (loss) attributable to VPG stockholders        | \$6,379                 | \$(4,825 )    |

See accompanying notes.

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

|   | Six fiscal months ended |               |
|---|-------------------------|---------------|
|   | June 28, 2014           | June 29, 2013 |
| Operating activities  |                         |               |
| Net earnings  | \$5,226                 | \$1,726       |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                         |               |
| Depreciation and amortization   | 5,795                   | 6,027         |
| Loss (gain) on disposal of property and equipment                                   | 9                       | (6            |
| Share-based compensation expense  | 485                     | 704           |
| Inventory write-offs for obsolescence   | 562                     | 531           |
| Other   | (309                    | ) (861        |
| Net changes in operating assets and liabilities, net of acquisitions:               |                         |               |
| Accounts receivable   | (4,608                  | ) (4,448      |
| Inventories   | 42                      | 3,780         |
| Prepaid expenses and other current assets   | (487                    | ) (1,002      |
| Trade accounts payable  | (244                    | ) (593        |
| Other current liabilities   | (1,587                  | ) (1,906      |
| Net cash provided by operating activities   | 4,884                   | 3,952         |
| Investing activities  |                         |               |
| Capital expenditures  | (3,444                  | ) (1,810      |
| Proceeds from sale of property and equipment  | 63                      | 42            |
| Purchase of business  | —                       | (48,919       |
| Net cash used in investing activities   | (3,381                  | ) (50,687     |
| Financing activities  |                         |               |
| Proceeds from long-term debt  | —                       | 25,000        |
| Principal payments on long-term debt and capital leases                             | (2,070                  | ) (1,576      |
| Debt issuance costs   | —                       | (384          |
| Distributions to noncontrolling interests   | (43                     | ) (32         |
| Net cash (used in) provided by financing activities                                 | (2,113                  | ) 23,008      |
| Effect of exchange rate changes on cash and cash equivalents                        | 280                     | (1,998        |
| Decrease in cash and cash equivalents   | (330                    | ) (25,725     |
| Cash and cash equivalents at beginning of period                                    | 72,785                  | 93,881        |
| Cash and cash equivalents at end of period  | \$72,455                | \$68,156      |

See accompanying notes.

## VISHAY PRECISION GROUP, INC.

## Consolidated Condensed Statement of Equity

(Unaudited - In thousands, except share amounts)

|  | Common<br>Stock | Class B<br>Convertible<br>Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total VPG,<br>Inc.<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|--|-----------------|---|--------------------------------------|----------------------|---|---|-----------------------------|-----------------|
| Balance at<br>December 31, 2013                  | \$ 1,271        | \$ 103                                    | \$ 188,424                           | \$ 32,647            | \$ (19,027 )  | \$ 203,418                                    | \$ 133                      | \$ 203,551      |
| Net earnings                                     | —               | —   | —                                    | 5,167                | —   | 5,167   | 59                          | 5,226           |
| Other<br>comprehensive<br>income                 | —               | —   | —                                    | —                    | 1,212   | 1,212   | —                           | 1,212           |
| Share-based<br>compensation<br>expense           | —               | —   | 414                                  | —                    | —   | 414   | —                           | 414             |
| Restricted stock<br>issuances (19,254<br>shares) | 2               | —   | 246                                  | —                    | —   | 248   | —                           | 248             |
| Distributions to<br>noncontrolling<br>interests  | —               | —   | —                                    | —                    | —   | —   | (43 )                       | (43 )           |
| Balance at June 28,<br>2014                      | \$ 1,273        | \$ 103                                    | \$ 189,084                           | \$ 37,814            | \$ (17,815 )  | \$ 210,459                                    | \$ 149                      | \$ 210,608      |

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

Interim Financial Statements

These unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements and therefore do not include all information and footnotes necessary for the presentation of financial position, results of operations, and cash flows required by accounting principles generally accepted in the United States for complete financial statements. The information furnished reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair summary of the financial position, results of operations, and cash flows for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in VPG’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 12, 2014. The results of operations for the fiscal quarter and six fiscal months ended June 28, 2014 are not necessarily indicative of the results to be expected for the full year.

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 2014 and 2013 end on the following dates:

|           | 2014          | 2013          |
|-----------|---------------|---------------|
| Quarter 1 | March 29,     | March 30,     |
| Quarter 2 | June 28,      | June 29,      |
| Quarter 3 | September 27, | September 28, |
| Quarter 4 | December 31,  | December 31,  |

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 and 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, 2016. Early adoption is not permitted under GAAP, and either full or modified retrospective application is required. The effects of this standard on the Company's financial position, results of operations and cash flows are not yet known.

Note 2 – Restructuring Costs

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



## Note 2 – Restructuring Costs (continued)

The Company recorded restructuring costs of \$0.3 million during the six fiscal months ended June 28, 2014. These costs were comprised of employee termination costs, including severance and a statutory retirement allowance at the Company's subsidiary in Canada, and were incurred in connection with a cost reduction program. As of June 28, 2014, \$0.2 million of the restructuring costs have been paid. The remaining costs are expected to be paid during the remainder of 2014 and the first quarter of 2015.

The Company recorded restructuring costs of \$0.1 million during the fourth quarter of 2013. These costs were comprised of employee termination costs, including severance and a statutory retirement allowance at the Company's subsidiary in Canada, and were incurred in connection with a cost reduction in one of the manufacturing areas. These costs were fully paid at the end of the first fiscal quarter of 2014.

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

## Note 3 – Income Taxes

VPG calculates the tax provision for interim periods using an estimated annual effective tax rate methodology which is based on a current projection of full-year earnings before taxes amongst different taxing jurisdictions and adjusted for the impact of discrete quarterly items. The effective tax rate for the fiscal quarter ended June 28, 2014 was 21.3% versus 18.5% for the fiscal quarter ended June 29, 2013. The effective tax rate for the six fiscal months ended June 28, 2014 was 21.5% versus 25.2% for the six fiscal months ended June 29, 2013. The primary change in the effective tax rate for both periods presented is the result of changes in the geographic mix of pretax earnings, and the recording of net tax benefits associated with foreign exchange variations.

VPG is implementing a reorganization within the Company's corporate entity structure. For the fiscal quarter ended June 28, 2014, this reorganization caused the Company to record a discrete income tax expense of \$1.9 million associated with foreign earnings that were previously considered permanently reinvested. In addition, the reorganization resulted in the recording of a \$2.0 million discrete income tax benefit for the reversal of an existing valuation allowance against U.S. foreign tax credit carryforwards. The Company expects to complete the reorganization during the fourth quarter of 2014.

The provision for income taxes consists of provisions for federal, state, and foreign income taxes. The effective tax rates for the fiscal quarters and six fiscal months ended June 28, 2014 and June 29, 2013 reflect VPG's expected tax rate on reported income before income tax and tax adjustments. VPG operates in an international environment with significant operations in various locations outside the United States. Accordingly, the consolidated income tax rate is a composite rate reflecting VPG's earnings and the applicable tax rates in the various locations in which VPG operates. The Company and its subsidiaries are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. VPG establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when VPG believes that certain positions might be challenged despite its belief that the tax return positions are supportable. VPG adjusts these reserves in light of changing facts and circumstances and the provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. Penalties and tax-related interest expense are reported as a component of income tax expense. The Company anticipates \$0.1 million to \$0.3 million of unrecognized tax benefits to be reversed within the next twelve months of the reporting date, due to the expiration of statute of limitations in certain jurisdictions.

## Note 4 – Long-Term Debt

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

|  | June 28, 2014 | December 31, 2013 |
|--|---------------|-------------------|
| 2013 Credit Agreement - revolving facility     | \$—           | \$—               |
| 2013 Credit Agreement - U.S. term facility     | 7,000         | 8,000             |
| 2013 Credit Agreement - Canadian term facility | 13,000        | 14,000            |
| Israeli Credit Agreement - revolving facility  | —             | —                 |
| Exchangeable unsecured notes, due 2102         | 4,097         | 4,097             |
| Other debt                                     | 937           | 976               |
|  | 25,034        | 27,073            |
| Less: current portion                          | 4,641         | 4,137             |
|  | \$20,393      | \$22,936          |

## Note 5 – 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, 2014  | \$(16,761)                              | \$(2,266)  | \$(19,027) |
| Other comprehensive income (loss) before reclassifications              | 1,218                                   | —  | 1,218      |
| Amounts reclassified from accumulated other comprehensive income (loss) | —                                       | (6)  | (6)        |
| Balance at June 28, 2014  | \$(15,543)                              | \$(2,272)  | \$(17,815) |
|   | Foreign Currency Translation Adjustment | Pension and Other Postretirement Actuarial Items | Total      |
| Balance at January 1, 2013  | \$(11,044)                              | \$(3,939)  | \$(14,983) |
| Other comprehensive income (loss) before reclassifications              | (6,801)                                 | —  | (6,801)    |
| Amounts reclassified from accumulated other comprehensive income (loss) | —                                       | 279  | 279        |
| Balance at June 29, 2013  | \$(17,845)                              | \$(3,660)  | \$(21,505) |

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 6).

## Note 6 – 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<br>June 28, 2014    |               | Fiscal quarter ended<br>June 29, 2013    |               |
|----------------------------------|--|---------------|--|---------------|
|                                  | Pension<br>Plans                         | OPEB<br>Plans | Pension<br>Plans                         | OPEB<br>Plans |
| Net service cost                 | \$107                                    | \$21          | \$111                                    | \$19          |
| Interest cost                    | 238                                      | 31            | 212                                      | 25            |
| Expected return on plan assets   | (201                                     | ) —           | (149                                     | ) —           |
| Amortization of actuarial losses | 7  | 9             | 42                                       | 7             |
| Net periodic benefit cost        | \$151                                    | \$61          | \$216                                    | \$51          |
|                                  | Six fiscal months ended<br>June 28, 2014 |               | Six fiscal months ended<br>June 29, 2013 |               |
|                                  | Pension<br>Plans                         | OPEB<br>Plans | Pension<br>Plans                         | OPEB<br>Plans |
| Net service cost                 | \$212                                    | \$42          | \$227                                    | \$37          |
| Interest cost                    | 473                                      | 62            | 428                                      | 49            |
| Expected return on plan assets   | (399                                     | ) —           | (300                                     | ) —           |
| Amortization of actuarial losses | 14                                       | 18            | 85                                       | 14            |
| Net periodic benefit cost        | \$300                                    | \$122         | \$440                                    | \$100         |

## Note 7 – 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 June 28, 2014, the Company had reserved 574,616 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 cancelled by the Company, the underlying shares would be available for regrant to others.



## Note 7 – Share-Based Compensation (continued)

## Stock Options

The following table summarizes the Company's 2014 stock option activity (number of options in thousands):

|                            | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (yrs) |
|----------------------------|-------------------------|--|---|
| Outstanding:               |                         |  |   |
| Balance at January 1, 2014 | 27                      | \$18.06                                  |   |
| Granted                    | —                       | —  |   |
| Exercised                  | —                       | —  |   |
| Expired                    | —                       | —  |   |
| Balance at June 28, 2014   | 27                      | \$18.06                                  | 2.47  |
| Exercisable:               |                         |  |   |
| End of period              | 27                      | \$18.23                                  |   |

The pretax intrinsic value (the difference between the closing stock price of VPG's common stock on the last trading day of the fiscal quarter of \$16.19 per share and the exercise price, multiplied by the number of in-the-money options) that would have been received by the options holders had all option holders exercised their options on June 28, 2014 is not material.

## Restricted Stock Units

On January 29, 2014, 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 \$1.2 million and were comprised of 79,453 RSUs. Twenty-five percent of these awards will vest on January 1, 2017, subject to the executives' continued employment. The performance-based portion of the RSUs will also vest on January 1, 2017, subject to the satisfaction of certain performance objectives relating to three year cumulative "free cash" and net earnings goals, and their continued employment.

On May 5, 2014, 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 \$0.3 million and were comprised of 21,387 RSUs. Twenty-five percent of these awards will vest on January 1, 2017, subject to the employees' continued employment. The performance-based portion of the RSUs will also vest on January 1, 2017, subject to the satisfaction of certain performance objectives relating to three year cumulative earnings and cash flows goals, and their continued employment.

On May 22, 2014, the Board of directors approved the issuance of an aggregate of 11,235 RSUs to the three independent board members and to the non-executive Chairman of the Board, with an aggregate grant-date fair value of \$0.2 million. The compensation cost with respect to the awards is recognized ratably over the one year vesting period of such awards.

RSU activity for 2014 is presented below (number of RSUs in thousands):

|                            | Number<br>of<br>RSUs | Weighted<br>Average<br>Grant-date<br>Fair Value |
|----------------------------|----------------------|---|
| Outstanding:               |                      |   |
| Balance at January 1, 2014 | 146                  | \$14.72   |
| Granted                    | 112                  | 15.30   |
| Vested                     | (22                  | ) 15.84   |
| Balance at June 28, 2014   | 236                  | \$14.89   |



## Note 7 – Share-Based Compensation (continued)

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. Compensation cost is recognized over the period that the participant provides service in exchange for the award. RSUs with performance-based vesting criteria are expected to vest as follows (number of RSUs in thousands):

| Vesting Date    | Expected to Vest | Not Expected to Vest | Total |
|-----------------|------------------|----------------------|-------|
| January 1, 2015 | 9                | 29                   | 38    |
| January 1, 2016 | 23               | 24                   | 47    |
| January 1, 2017 | 76               | —                    | 76    |

## Share-Based Compensation Expense

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

|                        | Fiscal quarter ended |               | Six fiscal months ended |               |
|------------------------|----------------------|---------------|-------------------------|---------------|
|                        | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Stock options          | \$—                  | \$1           | \$—                     | \$2           |
| Restricted stock units | 263                  | 368           | 485                     | 702           |
| Total                  | \$263                | \$369         | \$485                   | \$704         |

## Note 8 – 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):

|   | Fiscal quarter ended |               | Six fiscal months ended |               |
|---|----------------------|---------------|-------------------------|---------------|
|   | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Net third-party revenues:   |                      |               |                         |               |
| Foil Technology Products  | \$28,028             | \$24,523      | \$54,035                | \$48,875      |
| Force Sensors   | 16,981               | 16,092        | 33,413                  | 32,488        |
| Weighing & Control Systems  | 20,153               | 22,222        | 38,755                  | 38,935        |
| Total   | \$65,162             | \$62,837      | \$126,203               | \$120,298     |
| Gross profit:   |                      |               |                         |               |
| Foil Technology Products  | \$11,259             | \$9,351       | \$21,115                | \$18,496      |
| Force Sensors   | 3,717                | 3,305         | 7,224                   | 7,704         |
| Weighing & Control Systems  | 9,721                | 8,904         | 18,405                  | 15,329        |
| Total   | \$24,697             | \$21,560      | \$46,744                | \$41,529      |
| Reconciliation of segment operating income to consolidated results: |                      |               |                         |               |
| Foil Technology Products  | \$6,542              | \$5,247       | \$11,742                | \$10,014      |
| Force Sensors   | 1,358                | 1,028         | 2,499                   | 3,257         |

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|   |         |          |           |           |
|---|---------|----------|-----------|-----------|
| Weighing & Control Systems              | 3,647   | 3,299    | 6,672     | 5,024     |
| Unallocated G&A expenses                | (6,768  | ) (6,579 | ) (12,787 | ) (13,128 |
| Acquisition costs                       | —       | (208     | ) —       | (695      |
| Restructuring costs                     | (7      | ) —      | (331      | ) (388    |
| Consolidated condensed operating income | \$4,772 | \$2,787  | \$7,795   | \$4,084   |
| Acquisition costs:                      |         |          |           |           |
| Weighing & Control Systems              | \$—     | \$208    | \$—       | \$695     |
| Restructuring costs:                    |         |          |           |           |
| Foil Technology Products                | \$—     | \$—      | \$—       | \$388     |
| Weighing & Control Systems              | 7       | —        | 331       | —         |
|   | \$7     | \$—      | \$331     | \$388     |

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 \$0.9 million and \$0.4 million during the fiscal quarters ended June 28, 2014 and June 29, 2013, respectively, and \$1.4 million and \$0.8 million during the six fiscal months ended June 28, 2014 and June 29, 2013, respectively. Intersegment sales from the Force Sensors segment to the Foil Technology Products segment and Weighing and Control Systems segment were

\$0.4 million and \$0.6 million during the fiscal quarters ended June 28, 2014 and June 29, 2013, respectively, and \$0.8 million and \$1.3 million during the six fiscal months ended June 28, 2014 and June 29, 2013, respectively.

Intersegment sales from the Weighing and Control Systems segment to the Force Sensors segment were \$0.3 million and \$0.2 million during the fiscal quarters ended June 28, 2014 and June 29, 2013, respectively, and \$0.6 million during each of the six fiscal months ended June 28, 2014 and June 29, 2013, respectively.

#### Note 9 – 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 |               | Six fiscal months ended |               |
|---|----------------------|---------------|-------------------------|---------------|
|   | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Numerator:  |                      |               |                         |               |
| Numerator for basic earnings per share:   |                      |               |                         |               |
| Net earnings attributable to VPG stockholders                                   | \$3,461              | \$1,310       | \$5,167                 | \$1,697       |
| Adjustment to the numerator for net earnings:                                   |                      |               |                         |               |
| Interest savings assuming conversion of dilutive exchangeable notes, net of tax | 1                    | 5             | 3                       | 10            |
| Numerator for diluted earnings per share:                                       |                      |               |                         |               |
| Net earnings attributable to VPG stockholders                                   | \$3,462              | \$1,315       | \$5,170                 | \$1,707       |
| Denominator:  |                      |               |                         |               |
| Denominator for basic earnings per share:                                       |                      |               |                         |               |
| Weighted average shares   | 13,756               | 13,392        | 13,754                  | 13,389        |
| Effect of dilutive securities:  |                      |               |                         |               |
| Exchangeable notes  | 181                  | 441           | 181                     | 441           |
| Employee stock options  | 1                    | 1             | 1                       | 1             |
| Restricted stock units  | 30                   | 113           | 27                      | 107           |
| Dilutive potential common shares  | 212                  | 555           | 209                     | 549           |
| Denominator for diluted earnings per share:                                     |                      |               |                         |               |
| Adjusted weighted average shares  | 13,968               | 13,947        | 13,963                  | 13,938        |
| Basic earnings per share attributable to VPG stockholders                       | \$0.25               | \$0.10        | \$0.38                  | \$0.13        |
| Diluted earnings per share attributable to VPG stockholders                     | \$0.25               | \$0.09        | \$0.37                  | \$0.12        |

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 |               | Six fiscal months ended |               |
|---|----------------------|---------------|-------------------------|---------------|
|   | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Weighted average employee stock options | 23                   | 23            | 23                      | 23            |

## Note 10 – Additional Financial Statement Information

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

|                              | Fiscal quarter ended |               | Six fiscal months ended |               |
|------------------------------|----------------------|---------------|-------------------------|---------------|
|                              | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Foreign exchange gain (loss) | \$10                 | \$(803)       | \$(521)                 | \$(1,189)     |
| Interest income              | 82                   | 61            | 120                     | 134           |
| Other                        | (239)                | (165)         | (288)                   | (228)         |
|                              | \$(147)              | \$(907)       | \$(689)                 | \$(1,283)     |

## Note 11 – Fair Value Measurements

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

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

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

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

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

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

|                             | Total<br>Fair Value | Fair value measurements at reporting<br>date using: |                   |                   |
|-----------------------------|---------------------|---|-------------------|-------------------|
|                             |                     | Level 1<br>Inputs                                   | Level 2<br>Inputs | Level 3<br>Inputs |
| June 28, 2014               |                     |   |                   |                   |
| Assets                      |                     |   |                   |                   |
| Assets held in rabbi trusts | \$4,672             | \$940   | \$3,732           | \$—               |
| December 31, 2013           |                     |   |                   |                   |
| Assets                      |                     |   |                   |                   |
| Assets held in rabbi trusts | \$4,678             | \$1,087   | \$3,591           | \$—               |

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 June 28, 2014 and December 31, 2013, and company-owned life insurance assets. The marketable securities held in the rabbi trusts are valued using quoted market prices on the last business day of the period. The company-owned life insurance assets are valued in consultation with the Company’s insurance brokers using the value of underlying assets of the insurance contracts. The fair value measurement of the marketable securities held in the rabbi trust is considered a Level 1 measurement and the measurement of the company-owned life insurance assets is considered a Level 2 measurement within the fair value hierarchy.

The fair value of the long-term debt at June 28, 2014 and December 31, 2013 is approximately \$23.7 million and \$25.5 million, respectively, compared to its carrying value of \$25.0 million and \$27.1 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.

Note 11 – Fair Value Measurements (continued)

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

The Company's products are precision foil resistors, foil strain gages, and sensors that convert mechanical inputs into an electronic signal for display, processing, interpretation, or control by our instrumentation and systems products.

Precision sensors are essential to the accurate measurement, resolution and display of force, weight, pressure, torque, tilt, motion or acceleration, especially in the legal-for-trade, commercial, and industrial marketplace in a wide variety of applications. Our products are not typically used in the consumer market.

The precision sensor market is being influenced by the significant increase in intelligent products across virtually all end markets, including medical, agricultural, transportation, industrial, avionics, military, and space applications. We believe that as original equipment manufacturers (OEM's) strive to make products "smarter," they are generally integrating more sensors to link the mechanical/physical world with digital control and/or response. We believe this offers a substantial growth opportunity for our products.

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.

Net revenues for the fiscal quarter ended June 28, 2014 were \$65.2 million versus \$62.8 million for the comparable prior year period. Net earnings attributable to VPG stockholders for the fiscal quarter ended June 28, 2014 were \$3.5 million, or \$0.25 per diluted share, versus \$1.3 million, or \$0.09 per diluted share, for the comparable prior year period.

Net revenues for the six fiscal months ended June 28, 2014 were \$126.2 million versus \$120.3 million for the comparable prior year period. Net earnings attributable to VPG stockholders for the six fiscal months ended June 28, 2014 were \$5.2 million, or \$0.37 per diluted share, versus \$1.7 million, or \$0.12 per diluted share, for the comparable prior year period.

The results of operations for the fiscal quarters and six fiscal months ended June 28, 2014 and June 29, 2013 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 profit, adjusted gross 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 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 |               | Six fiscal months ended |               |   |
|---|----------------------|---------------|-------------------------|---------------|---|
|   | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |   |
| Gross profit                                    | \$24,697             | \$21,560      | \$46,744                | \$41,529      |   |
| Gross margin                                    | 37.9                 | % 34.3        | % 37.0                  | % 34.5        | % |
| Reconciling items affecting gross margin        |                      |               |                         |               |   |
| Acquisition purchase accounting adjustments (1) | 2                    | 2,260         | 41                      | 3,498         |   |
| Adjusted gross profit                           | \$24,699             | \$23,820      | \$46,785                | \$45,027      |   |
| Adjusted gross margin                           | 37.9                 | % 37.9        | % 37.1                  | % 37.4        | % |

|   | Fiscal quarter ended |               | Six fiscal months ended |               |  |
|---|----------------------|---------------|-------------------------|---------------|--|
|   | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |  |
| Net earnings attributable to VPG stockholders   | \$3,461              | \$1,310       | \$5,167                 | \$1,697       |  |
| Reconciling items affecting operating margin  |                      |               |                         |               |  |
| Acquisition purchase accounting adjustments (1)   | 2                    | 2,260         | 41                      | 3,498         |  |
| Acquisition costs   | —                    | 208           | —                       | 695           |  |
| Restructuring costs   | 7                    | —             | 331                     | 388           |  |
| Reconciling items affecting income tax expense  |                      |               |                         |               |  |
| Tax effect of purchase accounting adjustments, acquisition cost adjustments, and restructuring cost adjustments | 2                    | 654           | 94                      | 1,346         |  |
| Adjusted net earnings attributable to VPG stockholders  | \$3,468              | \$3,124       | \$5,445                 | \$4,932       |  |
| Weighted average shares outstanding - diluted   | 13,968               | 13,947        | 13,963                  | 13,938        |  |
| Adjusted net earnings per diluted share   | \$0.25               | \$0.22        | \$0.39                  | \$0.35        |  |

(1) Acquisition purchase accounting adjustments, recorded in connection with the acquisition of the KELK business, include fair market value adjustments associated with inventory and advance customer payments.

#### 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 margin, end-of-period backlog, book-to-bill ratio, and inventory turnover.

Gross 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 margin is clearly a function of net revenues, but also reflects our cost-cutting programs and our ability to contain fixed costs.

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



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

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

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

|                       | 2nd Quarter<br>2013 | 3rd Quarter<br>2013 | 4th Quarter<br>2013 | 1st Quarter<br>2014 | 2nd Quarter<br>2014 |   |
|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---|
| Net revenues          | \$62,837            | \$57,729            | \$62,248            | \$61,041            | \$65,162            |   |
| Gross margin          | 34.3                | % 33.3              | % 37.1              | % 36.1              | % 37.9              | % |
| End-of-period backlog | \$59,400            | \$60,900            | \$60,000            | \$65,800            | \$65,200            |   |
| Book-to-bill ratio    | 0.98                | 1.01                | 1.00                | 1.09                | 0.98                |   |
| Inventory turnover    | 2.87                | 2.75                | 2.86                | 2.84                | 2.95                |   |

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

After experiencing strong net revenues in the second quarter of 2013, there was a decline in net revenues in the third quarter of 2013. Inefficiencies in three of our manufacturing facilities in the Foil Technology Products segment, due to the enterprise resource planning ("ERP") implementation, resulted in lower shipments during the third quarter of 2013. From the fourth quarter of 2013 to the second quarter of 2014, revenues have improved in the Foil Technology Products segment, resulting in improved net revenues overall. The Force Sensors segment also has sequentially increased its revenues since the fourth quarter of 2013, mainly due to higher volume. The Weighing and Control Systems segment showed a recovery from the first quarter of 2014, with increased volume in the on-board weighing business.

The gross margins for the 2013 quarters were impacted by the purchase accounting adjustments recorded in connection with the acquisition of the KELK business in 2013. The gross margins, excluding the impacts of the purchase accounting adjustments, were 37.9%, 34.9% and 37.8% for the second, third and fourth quarters of 2013, respectively. The gross margin in the third quarter of 2013 reflected the effects of the ERP implementation in three of our manufacturing facilities in the Foil Technology Products segment, which caused manufacturing inefficiencies and a slowdown in shipments. In the fourth quarter of 2013, the improvement in the Foil Technology Products segment revenues and cost reductions in the Force Sensors segment helped improve the overall gross margin. In the first quarter of 2014, lower volume overall along with higher manufacturing costs in the Foil Technology Products segment contributed to the overall decline in the gross margin. In the second quarter of 2014, gross margin has improved from the previous quarter mainly due to higher volume across all reporting segments and lower fixed manufacturing costs.

The book-to-bill ratio in the second quarter of 2014 reflects the return to a normal demand level for our products.



## Financial Metrics by Segment

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

|                                     | 2nd Quarter<br>2013 | 3rd Quarter<br>2013 | 4th Quarter<br>2013 | 1st Quarter<br>2014 | 2nd Quarter<br>2014 |   |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---|
| <b>Foil Technology Products</b>     |                     |                     |                     |                     |                     |   |
| Net revenues                        | \$24,523            | \$22,433            | \$25,737            | \$26,007            | \$28,028            |   |
| Gross margin                        | 38.1                | % 36.7              | % 40.5              | % 37.9              | % 40.2              | % |
| End-of-period backlog               | \$21,600            | \$24,100            | \$25,800            | \$29,000            | \$29,200            |   |
| Book-to-bill ratio                  | 1.05                | 1.10                | 1.07                | 1.12                | 1.01                |   |
| Inventory turnover                  | 3.52                | 3.28                | 3.34                | 3.40                | 3.51                |   |
| <b>Force Sensors</b>                |                     |                     |                     |                     |                     |   |
| Net revenues                        | \$16,092            | \$16,388            | \$15,970            | \$16,432            | \$16,981            |   |
| Gross margin                        | 20.5                | % 17.6              | % 21.5              | % 21.3              | % 21.9              | % |
| End-of-period backlog               | \$13,600            | \$12,500            | \$12,800            | \$13,500            | \$12,700            |   |
| Book-to-bill ratio                  | 1.04                | 0.92                | 1.01                | 1.04                | 0.95                |   |
| Inventory turnover                  | 1.99                | 2.08                | 2.03                | 2.06                | 2.14                |   |
| <b>Weighing and Control Systems</b> |                     |                     |                     |                     |                     |   |
| Net revenues                        | \$22,222            | \$18,908            | \$20,541            | \$18,602            | \$20,153            |   |
| Gross margin                        | 40.1                | % 43.0              | % 44.9              | % 46.7              | % 48.2              | % |
| End-of-period backlog               | \$24,200            | \$24,300            | \$22,000            | \$23,300            | \$23,300            |   |
| Book-to-bill ratio                  | 0.87                | 0.98                | 0.91                | 1.09                | 0.98                |   |
| Inventory turnover                  | 3.65                | 3.38                | 3.90                | 3.63                | 3.80                |   |

## Optimize Core Competence

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

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

Our design, research, and product development teams, in partnership with our marketing teams, drive our efforts to bring innovations to market. We intend to leverage our insights into customer demand to continually develop and roll out new, innovative products within our existing lines and to modify our existing core products in ways that make them more appealing, addressing changing customer needs and industry trends in terms of form, fit, and function. We also seek to achieve significant production cost savings through the transfer, expansion, and construction of manufacturing operations in countries such as India, Costa Rica, Israel, the People's Republic of China, and the Republic of China (Taiwan), where we can benefit from lower labor costs, improved efficiencies, or available tax and other government-sponsored incentives.



#### Acquisition Strategy

We expect to continue to make strategic acquisitions where opportunities present themselves to grow our segments. 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 our sensors and electronic measurement instrumentation (containing foil resistors) and software into our weighing and control systems. Precision foil resistor products are used in many of the control systems that we manufacture. We believe acquired businesses will benefit from improvements we implement to reduce redundant functions and from our current global manufacturing operations and distribution channels.

#### Research and Development

Research and development will continue to play a key role in our efforts to introduce innovative products to generate new sales and to improve profitability. We expect to continue to expand our position as a leading supplier of precision foil technology products. We believe our R&D efforts should provide us with a variety of opportunities to leverage technology, products, and our manufacturing base in order to ultimately improve our financial performance.

#### Cost Management

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

Production transfers, facility consolidations, and other long-term cost-cutting measures require us to initially incur significant severance and other exit costs. We have begun to realize the benefits of our restructuring through lower labor costs and other operating expenses, and expect to continue reaping these benefits in future periods. However, these programs to improve our profitability also involve certain risks which could materially impact our future operating results, as further detailed in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K filed on March 12, 2014.

We recorded restructuring costs of \$0.3 million during the fiscal quarter ended March 29, 2014. These costs were comprised of employee termination costs, including severance and a statutory retirement allowance at our subsidiary in Canada and were incurred in connection with a cost reduction program.

We are presently executing plans to further reduce our costs by consolidating additional manufacturing operations. These plans will require us to incur restructuring and severance costs in future periods. However, after implementing these plans, we do not anticipate significant restructuring and severance costs for our business except in the context of acquisition integration.

While streamlining and reducing fixed overhead, we are exercising caution so that we will not negatively impact our customer service, or our ability to further develop products and processes.

#### Foreign Currency

We are exposed to foreign currency exchange rate risks, particularly due to transactions in currencies other than the functional currencies of certain subsidiaries. U.S. 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

We finance our operations in Europe, Canada, and certain locations in Asia using local currencies, and accordingly, these subsidiaries utilize the local currency as their functional currency. For those subsidiaries where the local currency is the functional currency, assets and liabilities in the consolidated condensed balance sheets have been

translated at the rate of exchange as of the balance sheet 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 condensed statement of operations, the translation effectively increases or decreases the U.S. dollar equivalent of revenues generated and expenses incurred in those foreign currencies.

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

Our operations in Israel and certain locations in Asia are largely financed in U.S. dollars, and accordingly, these subsidiaries utilize the U.S. dollar as their functional currency. For those foreign subsidiaries where the U.S. dollar is the functional currency, all foreign currency financial statement amounts are remeasured into U.S. dollars. Exchange gains and losses arising from remeasurement of foreign currency-denominated monetary assets and liabilities are included in the results of operations. While these subsidiaries transact most business in U.S. dollars, they may have significant costs, particularly related to payroll, which are incurred in the local currency.

For the fiscal quarter ended June 28, 2014, exchange rates increased net revenues by \$1.0 million, and increased costs of products sold and selling, general, and administrative expenses by \$0.5 million, when compared to the comparable prior year period. For the six fiscal months ended June 28, 2014, exchange rates increased net revenues by \$0.8 million, and increased costs of products sold and selling, general, and administrative expenses by \$0.6 million, when compared to the comparable prior year period.

## Results of Operations

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

|   | Fiscal quarter ended |               | Six fiscal months ended |               |   |
|---|----------------------|---------------|-------------------------|---------------|---|
|   | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |   |
| Costs of products sold                        | 62.1                 | % 65.7        | % 63.0                  | % 65.5        | % |
| Gross profit                                  | 37.9                 | % 34.3        | % 37.0                  | % 34.5        | % |
| Selling, general, and administrative expenses | 30.6                 | % 29.5        | % 30.6                  | % 30.2        | % |
| Operating income                              | 7.3                  | % 4.4         | % 6.2                   | % 3.4         | % |
| Income before taxes                           | 6.7                  | % 2.5         | % 5.3                   | % 1.9         | % |
| Net earnings                                  | 5.3                  | % 2.1         | % 4.1                   | % 1.4         | % |
| Net earnings attributable to VPG stockholders | 5.3                  | % 2.1         | % 4.1                   | % 1.4         | % |
| Effective tax rate                            | 21.3                 | % 18.5        | % 21.5                  | % 25.2        | % |

## Net Revenues

Net revenues were as follows (dollars in thousands):

|  | Fiscal quarter ended |               | Six fiscal months ended |               |
|--|----------------------|---------------|-------------------------|---------------|
|  | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Net revenues                               | \$65,162             | \$62,837      | \$126,203               | \$120,298     |
| Change versus comparable prior year period | \$2,325              |               | \$5,905                 |               |
| Percentage change versus prior year period | 3.7                  | %             | 4.9                     | %             |

Changes in net revenues were attributable to the following:

|                                  | vs. prior year<br>quarter | vs. prior year-<br>to-date |   |
|----------------------------------|---------------------------|----------------------------|---|
| Change attributable to:          |                           |                            |   |
| Change in volume                 | 2.7                       | % 4.6                      | % |
| Change in average selling prices | -0.7                      | % -0.4                     | % |
| Foreign currency effects         | 1.6                       | % 0.6                      | % |
| Other                            | 0.1                       | % 0.1                      | % |
| Net change                       | 3.7                       | % 4.9                      | % |

For the fiscal quarter ended June 28, 2014, the improvement in revenues, as compared to the prior year period, is due primarily to volume increases in the Foil Technology Products and Force Sensors segment, partially offset by volume decreases in the Weighing and Control Systems segment. For the six fiscal months ended June 28, 2014, the improvement in revenues, as compared to the prior year period, is due primarily to volume increases in the Foil Technology Products segment.

## Gross Profit and Margins

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

|              | Fiscal quarter ended |               | Six fiscal months ended |               |   |
|--------------|----------------------|---------------|-------------------------|---------------|---|
|              | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |   |
| Gross margin | 37.9                 | % 34.3        | % 37.0                  | % 34.5        | % |

The gross margin for the fiscal quarter and six fiscal months ended June 28, 2014, respectively, was flat compared to the comparable prior year periods, after adjusting for the KELK acquisition purchase accounting adjustments recorded in 2013. The KELK acquisition purchase accounting adjustments increased costs of products sold during the fiscal quarter ended June 29, 2013 by \$2.3 million, thereby impacting the gross margin. Excluding these adjustments, the gross margin would have been 37.9% for the fiscal quarter ended June 29, 2013. The KELK acquisition purchase accounting adjustments increased costs of products sold during the six fiscal months ended June 29, 2013 by \$3.5 million, thereby impacting the gross margin. Excluding these adjustments, the gross margin would have been 37.4% for the six fiscal months ended June 29, 2013.

#### Segments

Analysis of revenues and gross 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 |               | Six fiscal months ended |               |
|--|----------------------|---------------|-------------------------|---------------|
|  | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Net revenues                               | \$28,028             | \$24,523      | \$54,035                | \$48,875      |
| Change versus comparable prior year period | \$3,505              |               | \$5,160                 |               |
| Percentage change versus prior year period | 14.3                 | %             | 10.6                    | %             |

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

|                                  | vs. prior year<br>quarter |   | vs. prior year-<br>to-date |   |
|----------------------------------|---------------------------|---|----------------------------|---|
| Change attributable to:          |                           |   |                            |   |
| Change in volume                 | 13.5                      | % | 10.8                       | % |
| Change in average selling prices | -0.4                      | % | -0.5                       | % |
| Foreign currency effects         | 1.2                       | % | 0.4                        | % |
| Other                            | 0.0                       | % | -0.1                       | % |
| Net change                       | 14.3                      | % | 10.6                       | % |

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

|              | Fiscal quarter ended |               | Six fiscal months ended |               |
|--------------|----------------------|---------------|-------------------------|---------------|
|              | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Gross margin | 40.2                 | % 38.1        | % 39.1                  | % 37.8        |

For the fiscal quarter and six fiscal months ended June 28, 2014, the gross margin improved from the comparable prior year periods mainly due to increased volume, partially offset by higher manufacturing costs, including wage and headcount increases.

#### Force Sensors

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

|  | Fiscal quarter ended |               | Six fiscal months ended |               |
|--|----------------------|---------------|-------------------------|---------------|
|  | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Net revenues                               | \$16,981             | \$16,092      | \$33,413                | \$32,488      |
| Change versus comparable prior year period | \$889                |               | \$925                   |               |
| Percentage change versus prior year period | 5.5                  | %             | 2.8                     | %             |

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

|                                  | vs. prior year<br>quarter |   | vs. prior year-<br>to-date |   |
|----------------------------------|---------------------------|---|----------------------------|---|
| Change attributable to:          |                           |   |                            |   |
| Change in volume                 | 4.9                       | % | 1.6                        | % |
| Change in average selling prices | -1.3                      | % | -0.3                       | % |
| Foreign currency effects         | 1.9                       | % | 1.5                        | % |
| Other                            | 0.0                       | % | 0.0                        | % |
| Net change                       | 5.5                       | % | 2.8                        | % |

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

|              | Fiscal quarter ended |               | Six fiscal months ended |               |
|--------------|----------------------|---------------|-------------------------|---------------|
|              | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Gross margin | 21.9                 | % 20.5        | % 21.6                  | % 23.7        |

The gross margin for the fiscal quarter ended June 28, 2014 increased from the comparable prior year period primarily due to higher volume and positive exchange rate impacts, partially offset by higher manufacturing costs.

The gross margin for the six fiscal months ended June 28, 2014 decreased from the comparable prior year period.

Higher revenues were offset by higher fixed manufacturing costs, including labor inefficiencies and wage increases.

Weighing and Control Systems

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

|  | Fiscal quarter ended |               | Six fiscal months ended |               |
|--|----------------------|---------------|-------------------------|---------------|
|  | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Net revenues                               | \$20,153             | \$22,222      | \$38,755                | 38,935        |
| Change versus comparable prior year period | \$(2,069             | )             | \$(180                  | )             |
| Percentage change versus prior year period | -9.3                 | %             | -0.5                    | %             |

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

|                                  | vs. prior year<br>quarter |   | vs. prior year-<br>to-date |   |
|----------------------------------|---------------------------|---|----------------------------|---|
| Change attributable to:          |                           |   |                            |   |
| Change in volume                 | -10.7                     | % | -0.5                       | % |
| Change in average selling prices | -0.4                      | % | -0.2                       | % |
| Foreign currency effects         | 1.8                       | % | 0.3                        | % |
| Other                            | 0.0                       | % | -0.1                       | % |
| Net change                       | -9.3                      | % | -0.5                       | % |

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

|              | Fiscal quarter ended |               | Six fiscal months ended |               |
|--------------|----------------------|---------------|-------------------------|---------------|
|              | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |
| Gross margin | 48.2                 | % 40.1        | % 47.5                  | % 39.4        |

The gross margin for the fiscal quarter and six fiscal months ended June 28, 2014, respectively, decreased compared to the comparable prior year periods, after adjusting for the KELK acquisition purchase accounting adjustments, recorded in 2013. The KELK acquisition purchase accounting adjustments increased costs of products sold during the fiscal quarter ended June 29, 2013 by \$2.3 million, thereby impacting the gross margin. Excluding these adjustments, the gross margin would have been 50.2% for the fiscal quarter ended June 29, 2013. The KELK acquisition purchase accounting adjustments increased costs of products sold during the six fiscal months ended June 29, 2013 by \$3.5 million, thereby impacting the gross margin. Excluding these adjustments, the gross margin would have been 48.4% for the six fiscal months ended June 29, 2013.

#### Selling, General, and Administrative Expenses

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

|                                 | Fiscal quarter ended |               | Six fiscal months ended |               |   |
|---------------------------------|----------------------|---------------|-------------------------|---------------|---|
|                                 | June 28, 2014        | June 29, 2013 | June 28, 2014           | June 29, 2013 |   |
| Total SG&A expenses             | \$19,918             | \$18,565      | \$38,618                | \$36,362      |   |
| as a percentage of net revenues | 30.6                 | % 29.5        | % 30.6                  | % 30.2        | % |

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 June 28, 2014 increased \$1.4 million as compared to the comparable prior year period, mainly due to an increase in personnel costs. SG&A expenses for the six fiscal months ended June 28, 2014 increased \$2.3 million as compared to the comparable prior year period, mainly due to an increase in personnel costs. Approximately \$0.6 million of the increase relates to having one additional month of expenses from the KELK business, since the acquisition became effective January 31, 2013.

#### Acquisition Costs

In connection with the acquisition of the KELK business in January 2013, we recorded acquisition costs in our consolidated condensed statement of operations for the fiscal quarter and six fiscal months ended June 29, 2013, as follows (in thousands):

|                           | Fiscal quarter ended | Six fiscal months ended |
|---------------------------|----------------------|-------------------------|
|                           | June 29, 2013        | June 29, 2013           |
| Accounting and legal fees | \$178                | \$553                   |
| Appraisal fees            | 30                   | 84                      |
| Other                     | —                    | 58                      |
|                           | \$208                | \$695                   |

#### Restructuring Costs

Restructuring costs reflect the cost reduction programs implemented by the Company. Restructuring costs are expensed during the period in which the Company determines it will incur those costs and all requirements for accrual are met. Because these costs are recorded based upon estimates, actual expenditures for the restructuring activities may differ from the initially recorded costs. If the initial estimates are too low or too high, the Company could be required to either record additional expense in future periods or to reverse part of the previously recorded charges. We recorded restructuring costs of \$0.3 million during the six fiscal months ended June 28, 2014. These costs were comprised of employee termination costs, including severance and a statutory retirement allowance at our subsidiary in Canada, and were incurred in connection with a cost reduction program. As of June 28, 2014, \$0.2 million of the restructuring costs have been paid. The remaining costs are expected to be paid during the remainder of 2014 and the first quarter of 2015.

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



## Other Income (Expense)

Total interest expense for the fiscal quarter and six fiscal months ended June 28, 2014 was consistent with interest expense in the comparable prior year periods.

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

|                              | Fiscal quarter ended    |               |         |
|------------------------------|-------------------------|---------------|---------|
|                              | June 28, 2014           | June 29, 2013 | Change  |
| Foreign exchange gain (loss) | \$10                    | \$(803)       | ) \$813 |
| Interest income              | 82                      | 61            | 21      |
| Other                        | (239                    | ) (165        | ) (74   |
|                              | \$ (147                 | ) \$ (907     | ) \$760 |
|                              | Six fiscal months ended |               |         |
|                              | June 28, 2014           | June 29, 2013 | Change  |
| Foreign exchange loss        | \$(521                  | ) \$(1,189    | ) \$668 |
| Interest income              | 120                     | 134           | (14     |
| Other                        | (288                    | ) (228        | ) (60   |
|                              | \$(689                  | ) \$(1,283    | ) \$594 |

Foreign currency exchange gains and losses represent the impact of changes in foreign currency exchange rates. For the fiscal quarter ended June 28, 2014, exchange gains realized from the strengthening of the Canadian dollar against the U.S. dollar were offset by exchange losses due to weakening of the Israeli shekel and the British pound against the U.S. dollar. For the fiscal quarter ended June 29, 2013, the exchange loss was primarily due to the Canadian dollar weakening against the U.S. dollar.

For the six fiscal months ended June 28, 2014, the change in foreign exchange loss during the period, as compared to the prior year period, is largely due to exposure to currency fluctuations with the Canadian dollar, as the Canadian dollar has strengthened against the U.S. dollar.

## Income Taxes

For the current quarter, fluctuations in the effective tax rate have generally been caused by the geographical earnings mix and the impact of discrete items that are required to be recognized within the respective interim reporting period. The effective tax rate for the fiscal quarter ended June 28, 2014 was 21.3% versus 18.5% for the fiscal quarter ended June 29, 2013. The effective tax rate for the six fiscal months ended June 28, 2014 was 21.5% versus 25.2% for the six fiscal months ended June 29, 2013. The primary change in the effective tax rate for both periods presented is the result of changes in the geographic mix of pretax earnings, and the recording of net tax benefits associated with foreign exchange variations.

We are implementing a reorganization within our corporate entity structure. For the fiscal quarter ended June 28, 2014, this reorganization caused us to record a discrete income tax expense of \$1.9 million associated with foreign earnings that were previously considered permanently reinvested. In addition, the reorganization resulted in the recording of a \$2.0 million discrete income tax benefit for the reversal of an existing valuation allowance against U.S. foreign tax credit carryforwards. We expect to complete the reorganization during the fourth quarter of 2014.

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

result in the utilization of loss carryforwards for tax purposes.

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### Financial Condition, Liquidity, and Capital Resources

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

At June 28, 2014 and December 31, 2013, we had significant cash balances and limited third-party debt. 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 January 2013 we entered into an amended and restated credit agreement. The terms of our credit agreement provide for the following facilities: (1) a secured revolving facility of \$15.0 million (which may be increased by a maximum of \$10.0 million at our request), the proceeds of which can be used for general corporate purposes, with sublimits of \$10.0 million for letters of credit and \$5.0 million for swing loans outstanding for up to 5 business days; (2) a secured term facility of \$10.0 million for the Company; and (3) a secured term facility of \$15.0 million for Vishay Precision Group Canada ULC ("VPG Canada"), our Canadian subsidiary. The credit agreement terminates on January 29, 2018. The term loans are being repaid in quarterly installments.

Per our credit agreement, borrowings under all facilities (excluding swing loans) 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 by 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) a tangible net worth of not less than \$118.0 million, plus 50% of cumulative net earnings for each fiscal quarter since inception, excluding quarterly net losses; (b) a leverage ratio of not more than 2.5 to 1.0; and (c) a fixed charges coverage ratio of not less than 1.5 to 1.0. We were in compliance with these covenants at June 28, 2014. 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.

Vishay Advanced Technologies Ltd. ("VAT"), an Israeli company and subsidiary of VPG, maintains a credit agreement providing for a multi-currency, secured revolving facility of \$15.0 million. The VAT revolving facility terminates on November 30, 2014. There was no balance outstanding on this facility at June 28, 2014 or December 31, 2013.

Interest payable on the VAT revolving facility is based upon LIBOR plus an interest rate margin of 2.15% per annum. VAT is required to pay a quarterly fee of 0.40% per annum on the unused portion of the revolving facility. VAT's credit agreement requires compliance with customary covenants, representations and warranties, including the maintenance of specific financial ratios. The financial maintenance covenants include (a) a leverage ratio of not more than 2.5 to 1.0; (b) a tangible shareholders' equity of not less than \$48.0 million; and (c) a tangible net worth to total assets ratio of not less than 0.65 to 1.0. As of June 28, 2014, VAT was in compliance with its financial maintenance covenants. In the event of covenant non-compliance, the VAT credit agreement could be terminated by the lender, and any amounts outstanding pursuant to the VAT 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 \$0.9 million at June 28, 2014 and \$1.0 million at December 31, 2013, respectively.

Our business has historically generated operating cash flow. Our cash generated from operating activities for the six fiscal months ended June 28, 2014 was \$4.9 million, compared to \$4.0 million for the comparable prior year period. We refer to the amount of cash generated from operations (\$4.9 million) in excess of our capital expenditure needs (\$3.4 million) and net of proceeds from the sale of assets (\$0.1 million) as “free cash,” a measure which management uses to evaluate our ability to fund acquisitions and repay debt. For the six fiscal months ended June 28, 2014, we generated free cash of \$1.5 million and believe that our current cash and cash equivalents, credit facilities and projected cash from operations will be sufficient to meet our liquidity needs for at least the next 12 months.

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

|  | June 28, 2014 | December 31, 2013 |
|--|---------------|-------------------|
| Cash and cash equivalents                          | \$72,455      | \$72,785          |
| Third-party debt, including current and long-term: |               |                   |
| Revolving credit facilities                        | —             | —                 |
| Term loans   | 20,000        | 22,000            |
| Third-party debt held by Japanese subsidiary       | 937           | 976               |
| Exchangeable notes due 2102                        | 4,097         | 4,097             |
| Total third-party debt                             | 25,034        | 27,073            |
| Net cash   | \$47,421      | \$45,712          |

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

Approximately 88% and 75% of our cash and cash equivalents balance at June 28, 2014 and December 31, 2013, respectively, was held by our non-U.S. subsidiaries. If cash is repatriated to the United States, we would be subject to additional U.S. income taxes (adjusted for foreign tax credits), state income taxes, incremental foreign income taxes, and withholding taxes payable to various foreign countries. See the following table for the percentage of cash and cash equivalents, by region, at June 28, 2014 and December 31, 2013:

|                | June 28, 2014 | December 31, 2013 |  |   |
|----------------|---------------|-------------------|--|---|
| Israel         | 25            | % 16              |  | % |
| Asia           | 32            | % 30              |  | % |
| Europe         | 15            | % 16              |  | % |
| United States  | 12            | % 25              |  | % |
| United Kingdom | 9             | % 7               |  | % |
| Canada         | 7             | % 6               |  | % |
|                | 100           | % 100             |  | % |

Our financial condition as of June 28, 2014 remains strong, with a current ratio (current assets to current liabilities) of 4.2 to 1.0, as compared to a ratio of 4.0 to 1.0 at December 31, 2013.

Cash paid for property and equipment for the six fiscal months ended June 28, 2014 was \$3.4 million as compared to \$1.8 million in the comparable prior year period. Capital expenditures for the six fiscal months ended June 28, 2014 are comprised of projects related to the normal maintenance of business.

#### Safe Harbor Statement

From time to time, information provided by us, including but not limited to statements in this report, or other statements made by or on our behalf, may contain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve a number of risks, uncertainties, and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from those anticipated.

Such statements are based on current expectations only, and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, expected, estimated, or projected. Among the factors that could cause actual results to materially differ include: general business and economic conditions, changes in the current pace of economic recovery, including if such recovery stalls or does not continue as expected; difficulties or delays in completing acquisitions and integrating acquired companies, including KELK, the inability to realize anticipated synergies and expansion possibilities, difficulties in new product development; changes in competition and technology in the markets that we serve and the mix of our products required to address these changes; changes in foreign currency exchange rates; difficulties in implementing our ERP system and the associated impact on manufacturing efficiencies and customer satisfaction; difficulties in implementing our cost reduction strategies such as underutilization of production facilities, labor unrest or legal challenges to our lay-off or termination plans, operation of redundant facilities due to difficulties in transferring production to lower-labor-cost countries; and other factors affecting our operations, markets, products, services, and prices that are set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the market risks previously disclosed in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 12, 2014.

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 June 28, 2014, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 12, 2014.

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 June 28, 2014, furnished in XBRL (eXtensible Business Reporting Language)).

SIGNATURES

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

VISHAY 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: August 7, 2014