

Vishay Precision Group, Inc.
Form 10-Q
August 07, 2018

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 30, 2018

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

27-0986328

(State or Other Jurisdiction of Incorporation)

(I.R.S. Employer Identification Number)

3 Great Valley Parkway, Suite 150

Malvern, PA 19355

484-321-5300

(Address of Principal Executive Offices) (Zip Code) (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", "smaller reporting company", and "emerging growth 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

Emerging growth company

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

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

Yes No

As of August 7, 2018, the registrant had 12,449,253 shares of its common stock and 1,025,158 shares of its Class B convertible common stock outstanding.

VISHAY PRECISION GROUP, INC.
 FORM 10-Q
 June 30, 2018
 CONTENTS

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Condensed Balance Sheets – June 30, 2018 (Unaudited) and December 31, 2017	<u>3</u>
Consolidated Condensed Statements of Operations (Unaudited) – Fiscal Quarters Ended June 30, 2018 and July 1, 2017	<u>5</u>
Consolidated Condensed Statements of Operations (Unaudited) – Six Fiscal Months Ended June 30, 2018 and July 1, 2017	6
Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited) – Fiscal Quarters Ended June 30, 2018 and July 1, 2017	<u>7</u>
Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited) – Six Fiscal Months Ended June 30, 2018 and July 1, 2017	8
Consolidated Condensed Statements of Cash Flows (Unaudited) – Six Fiscal Months Ended June 30, 2018 and July 1, 2017	<u>9</u>
Consolidated Condensed Statement of Equity (Unaudited)	<u>10</u>
Notes to Unaudited Consolidated Condensed Financial Statements	<u>11</u>
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>21</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>37</u>
Item 4. Controls and Procedures	<u>37</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>38</u>
Item 1A. Risk Factors	<u>38</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>38</u>
Item 3. Defaults Upon Senior Securities	<u>38</u>
Item 4. Mine Safety Disclosures	<u>38</u>

Item 5. Other Information	<u>38</u>
Item 6. Exhibits	<u>39</u>
SIGNATURES	<u>40</u>

-2-

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

VISHAY PRECISION GROUP, INC.

Consolidated Condensed Balance Sheets

(In thousands)

	June 30, 2018 (Unaudited)	December 31, 2017 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 74,713	\$ 74,292
Accounts receivable, net	52,103	46,789
Inventories:		
Raw materials	19,502	16,601
Work in process	23,936	23,160
Finished goods	21,984	20,174
Inventories, net	65,422	59,935
Prepaid expenses and other current assets	11,660	10,299
Total current assets	203,898	191,315
Property and equipment, at cost:		
Land	3,412	3,434
Buildings and improvements	50,376	50,276
Machinery and equipment	97,772	95,158
Software	8,160	7,955
Construction in progress	2,172	2,252
Accumulated depreciation	(107,399)	(103,401)
Property and equipment, net	54,493	55,674
Goodwill	18,799	19,181
Intangible assets, net	18,966	20,475
Other assets	18,743	19,906
Total assets	\$ 314,899	\$ 306,551

Continues on the following page.

-3-

VISHAY PRECISION GROUP, INC.

Consolidated Condensed Balance Sheets (continued)

(In thousands)

	June 30, 2018	December 31, 2017
	(Unaudited)	
Liabilities and equity		
Current liabilities:		
Trade accounts payable	\$ 11,049	\$ 13,678
Payroll and related expenses	14,932	15,892
Other accrued expenses	16,758	15,952
Income taxes	2,888	2,515
Current portion of long-term debt	4,088	3,878
Total current liabilities	49,715	51,915
Long-term debt, less current portion	26,690	28,477
Deferred income taxes	2,300	2,300
Other liabilities	13,781	14,131
Accrued pension and other postretirement costs	16,115	16,424
Total liabilities	108,601	113,247
Commitments and contingencies		
Equity:		
Common stock	1,307	1,288
Class B convertible common stock	103	103
Treasury stock	(8,765) (8,765)
Capital in excess of par value	195,668	192,904
Retained earnings	55,604	43,076
Accumulated other comprehensive loss	(37,598) (35,450)
Total Vishay Precision Group, Inc. stockholders' equity	206,319	193,156
Noncontrolling interests	(21) 148
Total equity	206,298	193,304
Total liabilities and equity	\$ 314,899	\$ 306,551

See accompanying notes.

-4-

VISHAY PRECISION GROUP, INC.

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

	Fiscal quarter ended	
	June 30, 2018	July 1, 2017
Net revenues	\$74,231	\$62,319
Costs of products sold	42,865	37,560
Gross profit	31,366	24,759
Selling, general, and administrative expenses	19,990	18,591
Restructuring costs	61	315
Operating income	11,315	5,853
Other income (expense):		
Interest expense	(478)	(468)
Other	(272)	(571)
Other income (expense) - net	(750)	(1,039)
Income before taxes	10,565	4,814
Income tax expense	2,882	1,198
Net earnings	7,683	3,616
Less: net loss attributable to noncontrolling interests	(10)	(3)
Net earnings attributable to VPG stockholders	\$7,693	\$3,619
Basic earnings per share attributable to VPG stockholders	\$0.57	\$0.27
Diluted earnings per share attributable to VPG stockholders	\$0.57	\$0.27
Weighted average shares outstanding - basic	13,464	13,257
Weighted average shares outstanding - diluted	13,513	13,446

See accompanying notes.

-5-

VISHAY PRECISION GROUP, INC.

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

	Six fiscal months ended	
	June 30, 2018	July 1, 2017
Net revenues	\$147,322	\$122,106
Costs of products sold	87,451	74,830
Gross profit	59,871	47,276
Selling, general, and administrative expenses	40,309	36,609
Restructuring costs	61	869
Operating income	19,501	9,798
Other income (expense):		
Interest expense	(920)	(920)
Other	(921)	(1,100)
Other income (expense) - net	(1,841)	(2,020)
Income before taxes	17,660	7,778
Income tax expense	5,019	2,159
Net earnings	12,641	5,619
Less: net (loss) earnings attributable to noncontrolling interests	(40)	5)
Net earnings attributable to VPG stockholders	\$12,681	\$5,614
Basic earnings per share attributable to VPG stockholders	\$0.95	\$0.42
Diluted earnings per share attributable to VPG stockholders	\$0.94	\$0.42
Weighted average shares outstanding - basic	13,409	13,233
Weighted average shares outstanding - diluted	13,511	13,442

See accompanying notes.

-6-

VISHAY PRECISION GROUP, INC.

Consolidated Condensed Statements of Comprehensive Income (Loss)

(Unaudited - In thousands)

	Fiscal quarter ended	
	June 30, 2018	July 1, 2017
Net earnings	\$7,683	\$3,616
Other comprehensive income (loss):		
Foreign currency translation adjustment	(3,934)	2,345
Pension and other postretirement actuarial items, net of tax	275	(67)
Other comprehensive income	(3,659)	2,278
Total comprehensive income	4,024	5,894
Less: comprehensive loss attributable to noncontrolling interests	(10)	(3)
Comprehensive income attributable to VPG stockholders	\$4,034	\$5,897

See accompanying notes.

-7-

VISHAY PRECISION GROUP, INC.

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

	Six fiscal months ended	
	June 30, 2018	July 1, 2017
Net earnings	\$12,641	\$5,619
Other comprehensive income (loss):		
Foreign currency translation adjustment	(2,517)	3,834
Pension and other postretirement actuarial items, net of tax	369	(31)
Other comprehensive (loss) income	(2,148)	3,803
Comprehensive income	10,493	9,422
Less: comprehensive (loss) income attributable to noncontrolling interests	(40)	5
Comprehensive income attributable to VPG stockholders	\$10,533	\$9,417

See accompanying notes.

-8-

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

	Six fiscal months ended	
	June 30, 2018	July 1, 2017
Operating activities		
Net earnings	\$12,641	\$5,619
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	5,332	5,318
Gain on disposal of property and equipment	(83)	(141)
Share-based compensation expense	801	492
Inventory write-offs for obsolescence	1,158	982
Deferred income taxes	1,086	(104)
Other	455	(445)
Net changes in operating assets and liabilities:		
Accounts receivable, net	(6,141)	(6,928)
Inventories, net	(7,304)	(761)
Prepaid expenses and other current assets	(1,724)	(1,397)
Trade accounts payable	(390)	1,020
Other current liabilities	1,536	3,676
Net cash provided by operating activities	7,367	7,331
Investing activities		
Capital expenditures	(6,134)	(3,146)
Proceeds from sale of property and equipment	106	326
Net cash used in investing activities	(6,028)	(2,820)
Financing activities		
Principal payments on long-term debt and capital leases	(3,847)	(1,314)
Proceeds from revolving facility	11,000	16,000
Payments on revolving facility	(6,000)	(16,000)
Distributions to noncontrolling interests	(129)	(46)
Payments of employee taxes on certain share-based arrangements	(801)	(303)
Net cash provided by (used in) financing activities	223	(1,663)
Effect of exchange rate changes on cash and cash equivalents	(1,141)	1,858
Increase in cash and cash equivalents	421	4,706
Cash and cash equivalents at beginning of period	74,292	58,452
Cash and cash equivalents at end of period	\$74,713	\$63,158
Supplemental disclosure of non-cash investing transactions:		
Capital expenditures purchased	\$(3,988)	\$(3,146)
Supplemental disclosure of non-cash financing transactions:		
Conversion of exchangeable notes to common stock	\$(2,794)	\$(1,303)

See accompanying notes.

VISHAY PRECISION GROUP, INC.

Consolidated Condensed Statement of Equity

(Unaudited - In thousands, except share amounts)

	Common Stock	Class B Convertible Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total VPG, Inc. Stockholders Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2017	\$ 1,288	\$ 103	\$(8,765)	\$192,904	\$43,076	\$(35,450)	\$ 193,156	\$ 148	\$ 193,304
Net earnings	—	—	—	—	12,681	—	12,681	(40)	12,641
Other comprehensive income	—	—	—	—	—	(2,148)	(2,148)	—	(2,148)
Share-based compensation expense	—	—	—	801	—	—	801	—	801
Restricted stock issuances (59,038 shares)	7	—	—	(819)	—	—	(812)	—	(812)
Common stock issuance from conversion of exchangeable notes (123,808 shares)	12	—	—	2,782	—	—	2,794	—	2,794
Cumulative effect adjustment for adoption of ASU 2016-16	—	—	—	—	(153)	—	(153)	—	(153)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(129)	(129)
Balance at June 30, 2018	\$ 1,307	\$ 103	\$(8,765)	\$195,668	\$55,604	\$(37,598)	\$ 206,319	\$(21)	\$ 206,298

See accompanying notes.

-10-

Vishay Precision Group, Inc.

Notes to Unaudited Consolidated Condensed Financial Statements

Note 1 – Basis of Presentation

Background

Vishay Precision Group, Inc. (“VPG” or the “Company”) is an internationally recognized designer, manufacturer and marketer of sensors, and sensor-based measurement systems, as well as specialty resistors and strain gages based upon the Company's proprietary technology. The Company provides precision products and solutions, many of which are “designed-in” by its customers, specializing in the growing markets of stress, force, weight, pressure, and current measurements.

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, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in VPG’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 15, 2018. The results of operations for the fiscal quarter ended June 30, 2018 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 2018 and 2017 end on the following dates:

2018	2017
Quarter 1 March 31,	April 1,
Quarter 2 June 30,	July 1,
Quarter 3 September 29,	September 30,
Quarter 4 December 31,	December 31,

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 “Revenue from Contracts with Customers,” and modified the standard thereafter. The objective of the ASU is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that will supersede most current revenue recognition guidance. The basis of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Company adopted this standard as of January 1, 2018 using the modified retrospective method. See Note 2 for additional details.

In August 2016, the FASB issued ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” This ASU is intended to clarify the presentation of certain cash receipts and payments within the statement of cash flows. The Company adopted this standard effective January 1, 2018 and it did not have a material impact on the consolidated condensed financial statements.

In October 2016, the FASB issued ASU No. 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory.” This ASU requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The income tax consequences from the sale of inventory from one member of the consolidated entity to another will continue to be deferred until the inventory is sold to a third party. The Company’s adoption of this standard on January 1, 2018 resulted in a \$0.2 million cumulative effect adjustment to the 2018 beginning retained earnings.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business." This ASU provides a more robust framework to determine when a set of assets and activities constitutes a business. The Company adopted this standard effective January 1, 2018 and it did not have a material impact on the consolidated condensed financial statements.

-11-

Note 1 – Basis of Presentation (continued)

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This ASU requires the service cost component of net periodic benefit cost to be presented in the same income statement line item as other employee compensation costs. All other components of the net periodic benefit cost are presented outside of operating income. The Company adopted the new standard as of January 1, 2018 and recorded the non-service cost component of \$0.2 million and \$0.5 million to Other income (expense) - other for the fiscal quarter and six fiscal months ended June 30, 2018, respectively. Additionally, the non-service cost component of \$0.2 million and \$0.4 million was reclassified from Operating income to Other income (expense) - other for the fiscal quarter and six fiscal months ended July 1, 2017, respectively.

In May 2017, the FASB issued ASU No. 2017-09, "Scope of Modification Accounting." This ASU clarifies which changes to the terms or conditions of a share-based payment award will require modification accounting. The Company adopted this standard effective January 1, 2018 and it did not have a material impact on the consolidated condensed financial statements.

Recent Accounting Pronouncements

In January 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which gives entities the option to reclassify to retained earnings the tax effects resulting from the Tax Cuts and Jobs Act ("2017 Tax Act") related to items in accumulated other comprehensive income ("AOCI") that the FASB refers to as having been stranded in AOCI. The new guidance may be applied retrospectively to each period in which the effect of the 2017 Tax Act is recognized in the period of adoption. The Company must adopt this guidance for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for periods for which financial statements have not yet been issued or made available for issuance, including the period during which the 2017 Tax Act was enacted. The guidance, when adopted, will require new disclosures regarding a company's accounting policy for releasing the tax effects in AOCI and permit the company the option to reclassify to retained earnings the tax effects resulting from the 2017 Tax Act that are stranded in AOCI. The Company is evaluating the new standard to determine the impact on the consolidated condensed financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." This ASU eliminates the requirement to calculate the implied fair value of goodwill (second step) to measure a goodwill impairment charge. Under the guidance, an impairment charge will be measured based on the excess of the reporting unit's carrying amount over its fair value (first step). The amendments in this ASU are effective for interim and annual reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company is evaluating the standard to determine the impact on the consolidated condensed financial statements.

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

Note 2 – Revenues

Adoption of ASC 606

On January 1, 2018 the Company adopted Accounting Standards Codification ("ASC") 606 using the modified retrospective method. All of our contracts outstanding at December 31, 2017 were considered substantially complete as of January 1, 2018 and therefore resulted in no cumulative effect adjustments. The Company has determined that the impact of adoption of ASC 606 will not have a material impact on the timing or amount of revenue that we recognize based on our business activities existing at the date of adoption.

Revenue Recognition

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied, which generally occurs with the transfer of control of our products. For certain contracts with post-shipment obligations, revenue is recognized when the post-shipment obligation is satisfied. Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing post-shipment obligations. Sales, value add and other taxes collected concurrent with revenue-producing activities are excluded from revenue. Given the specialized nature of the Company's products, it generally does not allow product returns. Shipping and handling costs are recorded to Costs of product sold when control of the product has transferred

-12-

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Note 2 – Revenues (continued)

to the customer. The Company offers standard product warranties. Warranty related costs continue to be recognized as expense when the products are sold.

The following table disaggregates net revenue by geographic region from contracts with customers based on net revenues generated by subsidiaries within that geographic location (in thousands):

	Three Months Ended June 30, 2018				Three Months Ended July 1, 2017			
	Foil Technology Products	Force Sensors	Weighing and Control Systems	Total	Foil Technology Products	Force Sensors	Weighing and Control Systems	Total
United States	\$ 14,933	\$ 10,997	\$ 5,868	\$ 31,798	\$ 13,856	\$ 7,709	\$ 4,829	\$ 26,394
United Kingdom	965	2,689	3,677	7,331	706	3,144	2,736	6,586
Other Europe	7,703	2,960	4,527	15,190	6,041	2,094	3,823	11,958
Israel	2,471	144	—	2,615	1,497	172	—	1,669
Asia	8,130	2,568	2,716	13,414	7,206	2,537	1,530	11,273
Canada	—	—	3,883	3,883	—	—	4,439	4,439
Total	\$ 34,202	\$ 19,358	\$ 20,671	\$ 74,231	\$ 29,306	\$ 15,656	\$ 17,357	\$ 62,319

	Six Fiscal Months Ended June 30, 2018				Six Fiscal Months Ended July 1, 2017			
	Foil Technology Products	Force Sensors	Weighing and Control Systems	Total	Foil Technology Products	Force Sensors	Weighing and Control Systems	Total
United States	\$ 28,852	\$ 21,022	\$ 11,401	\$ 61,275	\$ 25,839	\$ 15,979	\$ 9,516	\$ 51,334
United Kingdom	1,913	6,052	7,270	15,235	1,512	6,068	5,428	13,008
Other Europe	15,475	6,000	9,900	31,375	12,579	4,166	7,858	24,603
Israel	4,841	286	—	5,127	2,710	316	—	3,026
Asia	17,275	5,226	3,832	26,333	14,430	4,595	2,987	22,012
Canada	—	—	7,977	7,977	—	—	8,123	8,123
Total	\$ 68,356	\$ 38,586	\$ 40,380	\$ 147,322	\$ 57,070	\$ 31,124	\$ 33,912	\$ 122,106

The following table disaggregates net revenue from contracts with customers by market sector (in thousands):

	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Test & Measurement	\$ 19,117	\$ 16,039	\$ 38,377	\$ 32,022
Avionics, Military & Space	5,875	6,358	11,566	11,408
Medical	2,295	2,159	4,974	4,266
Precision Weighing	23,825	19,452	47,648	38,537
Force Measurement	16,973	12,430	34,265	24,805
Steel	6,146	5,881	10,492	11,068
Total	\$ 74,231	\$ 62,319	\$ 147,322	\$ 122,106

Arrangements with Multiple Performance Obligations

Contracts with our customers can include multiple performance obligations. For such arrangements, we allocate revenues to each performance obligation based on its relative standalone selling price which is determined based on the prices charged to customers when sold on a standalone basis.

-13-

Note 2 – Revenues (continued)

Contract Assets & Liabilities

Contract assets are established when revenues are recognized prior to a contractual payment due from the customer. When a payment becomes due based on the contract terms, the Company will reduce the contract asset and record a receivable. Contract liabilities are deferred revenues that are recorded when cash payments are received or due in advance of our performance obligations. Our payment terms vary by the type and location of the products offered. The term between invoicing and when payment is due is not significant.

The outstanding contract assets and liability accounts were as follows (in thousands):

	Contract Asset	Contract Liability
	Unbilled Revenue	Accrued Customer Advances
Balance at December 31, 2017	\$ 824	\$ 3,229
Balance at June 30, 2018	995	4,893
Increase	\$ 171	\$ 1,664

The amount of revenue recognized during the six fiscal months ended June 30, 2018 that was included in the contract liability balance at December 31, 2017 was \$2.4 million. Of the \$3.8 million of contract liability balance at March 31, 2018, the Company recognized \$1.5 million as revenue during the second quarter of 2018.

Practical Expedients

The Company does not disclose the value of unsatisfied performance obligations for contracts that have a duration of one year or less and for contracts that are substantially complete. The Company treats shipping and handling activities as fulfillment costs.

Note 3 – Goodwill

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

	Total	Weighing and Control Systems Segment	KELK Stress-Tek Acquisition	Foil Technology Products Segment	Pacific Acquisition
Balance at December 31, 2017	\$19,181	\$6,828	\$ 6,311	\$ 6,042	
Foreign currency translation adjustment	(382)	(382)	—	—	
Balance at June 30, 2018	\$18,799	\$6,446	\$ 6,311	\$ 6,042	

Note 4 – Restructuring Costs

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

The Company recorded restructuring costs during the fiscal quarter and six fiscal months ended June 30, 2018 of \$0.1 million, which consisted mainly of employee termination costs in connection with cost reduction programs in Asia.

During the fiscal quarter and six fiscal months ended July 1, 2017, the Company recorded aggregate restructuring costs of \$0.3 million and \$0.9 million, respectively, which consisted mainly of employee termination costs and facility closure costs incurred in connection with various cost reduction programs in Europe, the United States and Canada. The following table summarizes recent activity related to all restructuring programs. The accrued restructuring liability balance as of June 30, 2018 and December 31, 2017, respectively, is included in Other accrued expenses in the accompanying consolidated condensed balance sheets (in thousands):

-14-

Note 4 – Restructuring Costs (continued)

Balance at December 31, 2017	\$254
Restructuring costs in 2018	61
Cash payments	(160)
Foreign currency translation	—
Balance at June 30, 2018	\$155

Note 5 – Income Taxes

On December 22, 2017, the 2017 Tax Act was enacted. The 2017 Tax Act significantly changed U.S. tax law by, among other things, lowering the corporate tax rate, implementing a partial territorial tax system, and imposing a one-time transition tax on post 1986 undistributed foreign earnings as of December 31, 2017. The 2017 Tax Act permanently reduced the U.S. corporate tax rate from a maximum of 35% to a flat 21%, effective January 1, 2018.

On December 22, 2017 the SEC staff issued Staff Accounting Bulletin ("SAB") 118 to address the application of U.S. GAAP in situations when a registrant does not have all the necessary information available to prepare and analyze the accounting treatment for the proper recognition of the tax impact of the 2017 Tax Act. In accordance with SAB 118 guidance, the Company has recorded the provisional tax impacts related to the deemed distribution of foreign earnings and the benefit for the revaluation of deferred tax assets and liabilities in its consolidated financial statements for the year ended December 31, 2017. The final impact may differ from the provisional amount recognized. In accordance with SAB 118, the financial reporting impact of the 2017 Tax Act will be completed in the fourth quarter of 2018.

As of June 30, 2018, the Company has not completed the analysis of all the tax effects of the 2017 Tax Act and has not recorded any additional adjustments to the provisional amounts recorded at December 31, 2017 year-end. The Company will continue to make and refine its calculations as additional analysis is completed. These estimates may also be affected as the Company gains a more thorough understanding of the 2017 Tax Act. These changes could be material to income tax expense.

The 2017 Tax Act subjects a U.S. shareholder to tax on Global Intangible Low-Taxed Income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and has not yet determined its accounting policy. As of June 30, 2018, because the Company is still evaluating the GILTI provisions and its analysis of future taxable income that is subject to GILTI, it has included GILTI related to current-year operations only in its Estimated Annual Effective Tax Rate and has not provided additional GILTI on deferred items.

VPG calculates the tax provision for interim periods using an estimated annual effective tax rate methodology based on projected full-year pre-tax earnings among the taxing jurisdictions in which we operate with adjustments for discrete items. The effective tax rate for the fiscal quarter ended June 30, 2018 was 27.3% compared to 24.9% for the fiscal quarter ended July 1, 2017. The effective tax rate for the six fiscal months ended June 30, 2018 was 28.4% compared to 27.8% for the six fiscal months ended July 1, 2017. The tax rate in the current fiscal quarter is higher than the prior year fiscal quarter because of the impact in the current quarter of certain discrete tax items, primarily having to do with foreign exchange gains and losses on the Israeli shekel. The current six fiscal month tax rate is higher than the prior year six fiscal month tax rate as a result of tax rate change benefits and foreign exchange losses recognized in the prior year fiscal period, while foreign exchange gains were recognized in the current fiscal period. The Company and its subsidiaries are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. VPG establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when VPG believes that certain

positions might be challenged despite its belief that the tax return positions are supportable. VPG adjusts these reserves in light of changing facts and circumstances and the provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. Penalties and tax-related interest expense are reported as a component of income tax expense.

-15-

Note 6 – Long-Term Debt

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

	June 30, 2018	December 31, 2017
2015 Credit Agreement - Revolving Facility	\$ 14,000	\$ 9,000
2015 Credit Agreement - U.S. Closing Date Term Facility	3,315	3,664
2015 Credit Agreement - U.S. Delayed Draw Term Facility	8,105	8,956
2015 Credit Agreement - Canadian Term Facility	5,294	7,880
Exchangeable Unsecured Notes, due 2102	—	2,794
Other debt	343	401
Deferred financing costs	(279)	(340)
Total long-term debt	30,778	32,355
Less: current portion	4,088	3,878
Long-term debt, less current portion	\$26,690	\$28,477

Exchangeable Unsecured Notes, due 2102

Effective February 26, 2018, the holder of the Company's exchangeable notes exercised its option to exchange the remaining \$2.8 million principal amount of the notes for 123,808 shares of VPG common stock at the contractual put/call rate of \$22.57 per share. Following this transaction, all exchangeable notes have been canceled and VPG has no further obligations pursuant to such notes.

Note 7 – Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation Adjustment	Pension and Other Postretirement Actuarial Items	Total
Balance at January 1, 2018	\$ (27,390)	\$ (8,060)	\$ (35,450)
Other comprehensive income before reclassifications	(2,517)	—	(2,517)
Amounts reclassified from accumulated other comprehensive income (loss)	—	369	369
Balance at June 30, 2018	\$ (29,907)	\$ (7,691)	\$ (37,598)

	Foreign Currency Translation Adjustment	Pension and Other Postretirement Actuarial Items	Total
Balance at January 1, 2017	\$ (33,192)	\$ (7,145)	\$ (40,337)
Other comprehensive loss before reclassifications	3,834	—	3,834
Amounts reclassified from accumulated other comprehensive income (loss)	—	(31)	(31)
Balance at July 1, 2017	\$ (29,358)	\$ (7,176)	\$ (36,534)

Reclassifications of pension and other postretirement actuarial items out of accumulated other comprehensive income (loss) are included in the computation of net periodic benefit cost (see Note 8).

Note 8 – Pension and Other Postretirement Benefits

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

Note 9 – Pension and Other Postretirement Benefits (continued)

	Fiscal quarter ended		Fiscal quarter ended	
	June 30, 2018		July 1, 2017	
	Pension Plans	OPEB Plans	Pension Plans	OPEB Plans
Net service cost	\$ 137	\$ 27	\$ 119	\$ 28
Interest cost	174	38	165	35
Expected return on plan assets	(141)	—	(132)	—
Amortization of actuarial losses	130	44	113	28
Net periodic benefit cost	\$ 300	\$ 109	\$ 265	\$ 91

	Six fiscal months ended		Six fiscal months ended	
	June 30, 2018		July 1, 2017	
	Pension Plans	OPEB Plans	Pension Plans	OPEB Plans
Net service cost	\$ 275	\$ 54	\$ 236	\$ 56
Interest cost	350	76	328	70
Expected return on plan assets	(283)	—	(262)	—
Amortization of actuarial losses	261	88	224	56
Net periodic benefit cost	\$ 603	\$ 218	\$ 526	\$ 182

Note 9 – Share-Based Compensation

The Amended and Restated Vishay Precision Group, Inc. Stock Incentive Program (as amended and restated, the “Plan”) permits the issuance of up to 1,000,000 shares of common stock. At June 30, 2018, the Company had reserved 182,055 shares of common stock for future grants of equity awards (restricted stock, unrestricted stock, restricted stock units (“RSUs”), or stock options) pursuant to the Plan. If any outstanding awards are forfeited by the holder or canceled by the Company, the underlying shares would be available for re-grant to others.

On February 16, 2018, VPG’s three current executive officers were granted annual equity awards in the form of RSUs, of which 75% are performance-based. The awards have an aggregate target grant-date fair value of \$1.3 million and were comprised of 52,166 RSUs. Twenty-five percent of these awards will vest on January 1, 2021, subject to the executives’ continued employment. The performance-based portion of the RSUs will also vest on January 1, 2021, subject to the executives’ continued employment and the satisfaction of certain performance objectives relating to three-year cumulative “free cash” and adjusted net earnings goals, each weighted equally.

On March 21, 2018, certain VPG employees were granted annual equity awards in the form of RSUs, of which 75% are performance-based. The awards have an aggregate grant-date fair value of \$0.4 million and were comprised of 13,215 RSUs. Twenty-five percent of these awards will vest on January 1, 2021 subject to the employees’ continued employment. The performance-based portion of the RSUs will also vest on January 1, 2021, subject to the satisfaction of certain performance objectives relating to three-year cumulative earnings and cash flow goals, and the employees’ continued employment.

On May 17, 2018, the Board of Directors approved the issuance of an aggregate of 9,294 RSUs to the independent board members of the Board of Directors and to the non-executive Chairman of the Board of Directors. The awards have an aggregate grant-date fair value of \$0.3 million and will vest on the earlier of VPG’s next Annual Stockholders Meeting or May 17, 2019, subject to the directors’ continued service on the Board of Directors.

The amount of compensation cost related to share-based payment transactions is measured based on the grant-date fair value of the equity instruments issued. VPG determines compensation cost for RSUs based on the grant-date fair value of the underlying common stock. The Company recognizes compensation cost for RSUs that are expected to vest and for which performance criteria are expected to be met. The following table summarizes share-based compensation expense recognized (in thousands):

	Fiscal quarter ended June 30, 2018		Six fiscal months ended July 1, 2018		Six fiscal months ended July 1, 2017
Restricted stock units	\$428	\$	\$248	\$	\$801
					\$492

Note 10 – Segment Information

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

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

Note 10 – Segment Information (continued)

	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net third-party revenues:				
Foil Technology Products	\$34,202	\$29,306	\$68,356	\$57,070
Force Sensors	19,358	15,656	38,586	31,124
Weighing and Control Systems	20,671	17,357	40,380	33,912
Total	\$74,231	\$62,319	\$147,322	\$122,106
Gross profit:				
Foil Technology Products	\$15,753	\$12,275	\$30,357	\$23,774
Force Sensors	5,690	4,527	10,930	8,218
Weighing and Control Systems	9,923	7,957	18,584	15,284
Total	\$31,366	\$24,759	\$59,871	\$47,276
Reconciliation of segment operating income to consolidated results:				
Foil Technology Products	\$9,976	\$6,854	\$18,769	\$12,917
Force Sensors	3,385	2,297	5,960	3,678
Weighing and Control Systems	4,956	3,617	8,834	6,699
Unallocated G&A expenses	(6,941)	(6,600)	(14,001)	(12,627)
Restructuring costs	(61)	(315)	(61)	(869)
Consolidated condensed operating income	\$11,315	\$5,853	\$19,501	\$9,798
Restructuring costs:				
Foil Technology Products	\$—	\$(12)	\$—	\$(138)
Force Sensors	(61)	(85)	(61)	(262)
Weighing and Control Systems	—	(39)	—	(287)
Corporate/Other	—	(179)	—	(182)
	\$(61)	\$(315)	\$(61)	\$(869)

Products are transferred between segments on a basis intended to reflect, as nearly as practicable, the market value of the products. The table below summarizes intersegment sales (in thousands):

	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Foil Technology Products to Force Sensors and Weighing and Control Systems	1,139	677	2,157	1,355
Force Sensors to Foil Technology Products and Weighing and Control Systems	405	347	716	766
Weighing and Control Systems to Foil Technology Products and Force Sensors	133	164	295	328

Note 11 – Earnings Per Share

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

	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017

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Numerator:

Numerator for basic earnings per share:

Net earnings attributable to VPG stockholders	\$7,693	\$3,619	\$12,681	\$5,614
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Adjustment to the numerator for net earnings:

Interest savings assuming conversion of dilutive exchangeable notes, net of tax	—	5	5	12
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Numerator for diluted earnings per share:

Net earnings attributable to VPG stockholders	\$7,693	\$3,624	\$12,686	\$5,626
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Denominator:

Denominator for basic earnings per share:

Weighted average shares	13,464	13,257	13,409	13,233
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Effect of dilutive securities:

Exchangeable notes	—	149	45	165
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Restricted stock units	49	40	57	44
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Dilutive potential common shares	49	189	102	209
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Denominator for diluted earnings per share:

Adjusted weighted average shares	13,513	13,446	13,511	13,442
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Basic earnings per share attributable to VPG stockholders	\$0.57	\$0.27	\$0.95	\$0.42
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Diluted earnings per share attributable to VPG stockholders	\$0.57	\$0.27	\$0.94	\$0.42
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Note 12 – Additional Financial Statement Information

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

	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Foreign exchange gain (loss)	\$75	\$(258)	\$(450)	\$(632)
Interest income	137	18	234	56
Other	(484)	(331)	(705)	(524)
	\$(272)	\$(571)	\$(921)	\$(1,100)

Note 13 – Fair Value Measurements

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

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

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

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

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

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

	Fair value measurements at reporting date using:			Total Fair Value
	Level 1	Level 2	Level 3	
June 30, 2018				
Assets				
Assets held in rabbi trusts	\$4,850	\$116	\$4,734	\$ —

December 31, 2017

Assets				
Assets held in rabbi trusts	\$4,988	\$364	\$4,624	\$ —

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 30, 2018 and December 31, 2017, and company-owned life insurance assets. The marketable securities held in the rabbi trusts are valued using quoted market prices on the last business day of the period. The company-owned life insurance assets are valued in consultation with the Company’s insurance brokers using the value of underlying assets of the insurance contracts. The fair value measurement of the marketable securities held in the rabbi trust is considered a Level 1 measurement and the measurement of the company-owned life insurance assets is considered a Level 2 measurement within the fair value hierarchy.

The fair value of the long-term debt, excluding capitalized deferred financing costs, at June 30, 2018 and December 31, 2017 is approximately \$30.8 million and \$33.4 million, respectively, compared to its carrying value, excluding capitalized deferred financing costs, of \$30.8 million and \$32.4 million, respectively. The Company estimates the fair value of its long-term debt using a combination of quoted market prices for similar financing arrangements and expected future payments discounted at risk-adjusted rates. The fair value of long-term debt is

considered a Level 2 measurement within the fair value hierarchy. The Company's financial instruments include cash and cash equivalents whose carrying amounts reported in the consolidated condensed balance sheets approximate their fair values.

-20-

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

Overview

VPG is an internationally recognized designer, manufacturer and marketer of sensors, and sensor-based measurement systems, as well as specialty resistors and strain gages based upon our proprietary technology. We provide precision products and solutions, many of which are "designed-in" by our customers, specializing in the growing markets of stress, force, weight, pressure, and current measurements. A significant portion of our products and solutions are primarily based upon our proprietary foil technology and are produced as part of our vertically integrated structure. We believe this strategy results in higher quality, more cost effective and focused solutions for our customers. Our products are marketed under a variety of brand names that we believe are characterized as having a very high level of precision and quality. Our global operations enable us to produce a wide variety of products in strategically effective geographic locations that also optimize our resources for specific technologies, sensors, assemblies, and systems. The Company also has a long heritage of innovation in precision foil resistors, foil strain gages, and sensors that convert mechanical inputs into an electronic signal for display, processing, interpretation, or control by our instrumentation and systems products. Our advanced sensor product line continues this heritage by offering high-quality foil strain gages produced in a proprietary, highly automated environment. Precision sensors are essential to the accurate measurement, resolution and display of force, weight, pressure, torque, tilt, motion, or acceleration, especially in the legal-for-trade, commercial, and industrial marketplaces. This expertise served as a foundation for our expansion into strain gage instrumentation, load cells, transducers, weighing modules, and complete systems for process control and on-board weighing. Although our products are typically used in the industrial market, our advanced sensors have been used in a consumer electronics product and are being evaluated for other non-industrial applications.

The precision sensor market is integral to the development of intelligent products across a wide variety of end markets upon which we focus, including medical, agricultural, transportation, industrial, avionics, military, and space applications. We believe that as original equipment manufacturers ("OEMs") continue a drive to make products "smarter," they will integrate more sensors and related systems into their solutions to link the mechanical/physical world with digital control and/or response. We believe this offers a substantial growth opportunity for our products and expertise. VPG reports in three product segments: the Foil Technology Products segment, the Force Sensors segment, and the Weighing and Control Systems segment. The Foil Technology Products reporting segment is comprised of the foil resistor and strain gage operating segments. The Force Sensors reporting segment is comprised of transducers, load cells, and modules. The Weighing and Control Systems reporting segment is comprised of complete systems which include load cells and instrumentation for weighing, force control and force measurement for a variety of uses such as process control and on-board weighing applications.

Net revenues for the fiscal quarter ended June 30, 2018 were \$74.2 million versus \$62.3 million for the comparable prior year period. Net earnings attributable to VPG stockholders for the fiscal quarter ended June 30, 2018 were \$7.7 million, or \$0.57 per diluted share, versus \$3.6 million, or \$0.27 per diluted share, for the comparable prior year period.

Net revenues for the six fiscal months ended June 30, 2018 were \$147.3 million versus \$122.1 million for the comparable prior year period. Net earnings attributable to VPG stockholders for the six fiscal months ended June 30, 2018 were \$12.7 million, or \$0.94 per diluted share, versus \$5.6 million, or \$0.42 per diluted share, for the comparable prior year period.

The results of operations for the fiscal quarters ended June 30, 2018 and July 1, 2017 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 profit margin, adjusted operating income, adjusted operating income 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. Such non-GAAP measures 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.

-21-

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

	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Gross profit	\$31,366	\$24,759	\$59,871	\$47,276
Gross profit margin	42.3 %	39.7 %	40.6 %	38.7 %
Adjusted gross profit	\$31,366	\$24,759	\$59,871	\$47,276
Adjusted gross profit margin	42.3 %	39.7 %	40.6 %	38.7 %
	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Operating income	\$11,315	\$5,853	\$19,501	\$9,798
Operating margin	15.2 %	9.4 %	13.2 %	8.0 %
Reconciling items affecting operating margin				
Restructuring costs	61	315	61	869
Adjusted operating income	\$11,376	\$6,168	\$19,562	\$10,667
Adjusted operating margin	15.3 %	9.9 %	13.3 %	8.7 %
	Fiscal quarter ended	July 1, 2017	Six fiscal months ended	July 1, 2017
	June 30, 2018	2017	June 30, 2018	2017
Net earnings attributable to VPG stockholders	\$7,693	\$3,619	\$12,681	\$5,614
Reconciling items affecting operating margin				
Restructuring costs	61	315	61	869
Less reconciling items affecting income tax expense				
Tax effect of reconciling items	9	13	9	56
Adjusted net earnings attributable to VPG stockholders	\$7,745	\$3,921	\$12,733	\$6,427
Adjusted net earnings per diluted share	\$0.57	\$0.29	\$0.94	\$0.48
Weighted average shares outstanding - diluted	13,513	13,446	13,511	13,442

Financial Metrics

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

Gross profit margin is computed as gross profit as a percentage of net revenues. Gross profit is generally net revenues less costs of products sold, but could also include certain other period costs. Gross profit margin is 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, backlog is not necessarily indicative of the results 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 amount of product shipped during that period. A book-to-bill ratio that is greater than one indicates that revenues may increase in future periods. Conversely, a book-to-bill ratio that is less than one is an indicator of lower demand and may foretell declining sales.

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

The quarter-to-quarter trends in these financial metrics can also be an important indicator of the likely direction of our business. The following tables show net revenues, gross profit margin, end-of-period backlog, book-to-bill ratio, and inventory turnover for our business as a whole and by segment during the five quarters beginning with the second quarter of 2017 through the second quarter of 2018 (dollars in thousands):

	2nd Quarter 2017	3rd Quarter 2017	4th Quarter 2017	1st Quarter 2018	2nd Quarter 2018
Net revenues	\$62,319	\$62,805	\$69,439	\$73,091	\$74,231
Gross profit margin	39.7	% 38.6	% 38.5	% 39.0	% 42.3
End-of-period backlog	\$67,500	\$76,200	\$88,900	\$93,900	\$101,000
Book-to-bill ratio	1.08	1.12	1.18	1.05	1.13
Inventory turnover	2.64	2.64	2.85	2.93	2.71

	2nd Quarter 2017	3rd Quarter 2017	4th Quarter 2017	1st Quarter 2018	2nd Quarter 2018
Foil Technology Products					
Net revenues	\$29,306	\$29,315	\$29,888	\$34,154	\$34,202
Gross profit margin	41.9 %	41.7 %	39.3 %	42.8 %	46.1 %
End-of-period backlog	\$34,300	\$35,500	\$46,600	\$47,900	\$54,900
Book-to-bill ratio	1.09	1.03	1.36	1.01	1.24
Inventory turnover	2.90	2.88	2.98	3.18	2.81
Force Sensors					
Net revenues	\$15,656	\$16,596	\$17,726	\$19,228	\$19,358
Gross profit margin	28.9 %	28.6 %	29.5 %	27.3 %	29.4 %
End-of-period backlog	\$14,100	\$18,300	\$21,600	\$19,900	\$17,300
Book-to-bill ratio	0.99	1.25	1.18	0.91	0.88
Inventory turnover	1.97	2.02	2.07	2.26	2.26
Weighing and Control Systems					
Net revenues	\$17,357	\$16,894	\$21,825	\$19,709	\$20,671
Gross profit margin	45.8 %	43.1 %	44.8 %	43.9 %	48.0 %
End-of-period backlog	\$19,100	\$22,400	\$20,700	\$26,100	\$28,800
Book-to-bill ratio	1.14	1.15	0.92	1.28	1.18
Inventory turnover	3.52	3.41	4.22	3.83	3.35

Net revenues for the second quarter of 2018 increased 1.6%, 2.6% excluding exchange rate impacts, from the first quarter of 2018 and 19.1% , 15.7% excluding exchange rate impacts, from the second quarter of 2017, due to increased volume in all three reporting segments.

Net revenues in the Foil Technology Products reporting segment increased 0.1% compared to the first quarter of 2018 and increased 16.7% from the second quarter of 2017. Net revenues increased as compared to the second quarter of 2017, due to precision resistors growth in all regions, primarily for the test and measurement market. Additionally, there were increased revenues from advanced sensors and other strain gage products across all regions in the force measurement markets along with favorable exchange rate impacts.

Net revenues in the Force Sensors reporting segment increased 0.7% from the first quarter of 2018. Net revenues increased 23.6% from the second quarter of 2017, mainly due to higher volume with OEM customers in the force measurement and precision weighing markets, primarily in the Americas, and favorable exchange rate impacts.

Net revenues in the Weighing and Control Systems reporting segment increased 4.9% from the first quarter of 2018 and increased 19.1% from the second quarter of 2017. Sequentially, the higher net revenues are primarily related to the significant revenues from the steel business, primarily in Asia. Compared to the second quarter of 2017, the strong revenues are attributable to all product lines in all regions, coupled with favorable exchange rate impacts.

Overall gross profit margin in the second quarter of 2018 increased 3.3% as compared to the first quarter of 2018 and increased 2.6% from the second quarter of 2017.

Sequentially, all reporting segments contributed to the gross profit margin improvement. The Foil Technology Products segment gross profit margin improved primarily due to labor and manufacturing efficiencies. The Force Sensors segment gross profit margin increased due to higher volume and lower manufacturing costs, including savings in freight costs. The increase in gross profit margin in the Weighing and Control Systems segment was mainly due to higher revenues from our steel products, which have a higher gross margin profile compared to other products in this reporting segment.

Compared to the second quarter of 2017, all reporting segments had a higher gross profit margin due to higher volume and favorable exchange rate impacts.

Optimize Core Competence

The Company's core competency and key value proposition is providing customers with proprietary foil technology products and precision measurement sensors and sensor-based systems. Our foil technology resistors and strain gages are recognized as global market leading products that provide high precision and high stability over extreme temperature ranges, and long life. Our force 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. We continue to optimize all aspects of our development, manufacturing and sales processes, including by increasing our technical sales efforts; continuing to innovate in product performance and design; and refining our manufacturing processes.

Our foil technology research group developed innovations that enhance the capability and performance of our strain gages, while simultaneously reducing their size and power consumption as part of our advanced sensors product line. We believe this unique foil technology will create new markets as customers "design in" these next generation products in existing and new applications. Our development engineering team is also responsible for creating new processes to further automate manufacturing, and improve productivity and quality. Our advanced sensors manufacturing technology also offers us the capability to produce high-quality foil strain gages in a highly automated environment, which we believe results in reduced manufacturing and lead times, improved quality and increased margins.

Our design, research, and product development teams, in partnership with our marketing teams, drive our efforts to bring innovations to market. We intend to leverage our insights into customer demand to continually develop and roll out new, innovative products within our existing lines and to modify our existing core products in ways that make them more appealing, addressing changing customer needs and industry trends in terms of form, fit, and function. We also seek to achieve significant production cost savings through the transfer, expansion, and construction of manufacturing operations in countries such as India and Israel, where we can benefit from lower labor costs, improved efficiencies, or available tax and other government-sponsored incentives. For example, in 2017 we closed two leased facilities in the United States and moved to more cost effective locations.

Acquisition Strategy

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

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 to more cost effective locations. This may enable us to become more efficient and cost competitive, and also maintain tighter controls over the operation. Production transfers, facility consolidations, and other long-term cost-cutting measures require us to initially incur significant severance and other exit costs. We are realizing the benefits of our restructuring through lower labor costs and other operating expenses, and expect to continue reaping these benefits in future periods. However, these

programs to improve our profitability also involve certain risks which could materially impact our future operating results, as further detailed in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (“SEC”) on March 15, 2018.

-25-

The Company recorded \$0.1 million of restructuring costs during the fiscal quarter ended June 30, 2018 and \$0.3 million of restructuring costs during the fiscal quarter ended July 1, 2017. Restructuring costs consist mainly of employee termination costs, including severance and statutory retirement allowances, and facility closure costs, and were incurred in connection with various cost reduction programs.

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

Goodwill

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

Foreign Currency

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

Foreign Subsidiaries which use the Local Currency as the Functional Currency

Our operations in Europe, Canada, and certain locations in Asia primarily generate and expend cash using local currencies, and accordingly, these subsidiaries utilize the local currency as their functional currency. For those subsidiaries where the local currency is the functional currency, assets and liabilities in the consolidated 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 period. While the translation of revenues and expenses into U.S. dollars does not directly impact the consolidated condensed statement of operations, the translation effectively increases or decreases the U.S. dollar equivalent of revenues generated and expenses incurred in those foreign currencies.

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

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

Effects of Foreign Exchange Rate on Operations

For the fiscal quarter ended June 30, 2018, exchange rates increased net revenues by \$1.9 million, and costs of products sold and selling, general, and administrative expenses by \$2.0 million, when compared to the comparable prior year period. For the six fiscal months ended June 30, 2018, exchange rates increased net revenues by \$5.1 million, and costs of products sold and selling, general, and administrative expenses by \$5.3 million, when compared to the comparable prior year period.

Off-Balance Sheet Arrangements

As of June 30, 2018 and December 31, 2017, we did not have any off-balance sheet arrangements.

-27-

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 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Costs of products sold	57.7%	60.3%	59.4%	61.3%
Gross profit	42.3%	39.7%	40.6%	38.7%
Selling, general, and administrative expenses	26.9%	29.8%	27.4%	30.0%
Operating income	15.2%	9.4 %	13.2%	8.0 %
Income before taxes	14.2%	7.7 %	12.0%	6.4 %
Net earnings	10.4%	5.8 %	8.6 %	4.6 %
Net earnings attributable to VPG stockholders	10.4%	5.8 %	8.6 %	4.6 %
Effective tax rate	27.3%	24.9%	28.4%	27.8%

Net Revenues

Net revenues were as follows (dollars in thousands):

	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net revenues	\$74,231	\$62,319	\$147,322	\$122,106
Change versus comparable prior year period	\$11,912		\$25,216	
Percentage change versus prior year period	19.1 %		20.7 %	

Changes in net revenues were attributable to the following:

	vs. prior year quarter	vs. prior year-to-date
Change attributable to:		
Change in volume	15.9 %	16.2 %
Change in average selling prices	(0.2)%	(0.2)%
Foreign currency effects	3.4 %	4.7 %
Net change	19.1 %	20.7 %

During the fiscal quarter and six fiscal months ended June 30, 2018, net revenues increased 19.1% and 20.7%, respectively, as compared to the comparable prior year periods due to increased volume in all three reporting segments and favorable exchange rate impacts.

Gross Profit Margin

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

	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Gross profit margin	42.3%	39.7%	40.6%	38.7%

The gross profit margin for the fiscal quarter and six fiscal months ended June 30, 2018 increased 2.6% and 1.9% compared to the comparable prior year periods. All reporting segments had a higher gross profit margin due to higher volume and favorable exchange rate impacts.

Segments

Analysis of revenues and gross profit margins for each of 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 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net revenues	\$34,202	\$29,306	\$68,356	\$57,070
Change versus comparable prior year period	\$4,896		\$11,286	
Percentage change versus prior year period	16.7 %		19.8 %	

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

	vs. prior year quarter	vs. prior year-to-date
Change attributable to:		
Change in volume	14.6 %	16.5 %
Change in average selling prices	(0.4) %	(0.5) %
Foreign currency effects	2.5 %	3.8 %
Net change	16.7 %	19.8 %

Net revenues increased 16.7% and 19.8% for the fiscal quarter and six fiscal months ended June 30, 2018, respectively, as compared to the comparable prior year periods due to precision resistors growth in all regions, primarily for the test and measurement market. Additionally, there were increased revenues from advanced sensors and other strain gage products across all regions in the force measurement markets along with favorable exchange rate impacts.

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 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Gross profit margin	46.1 %	41.9 %	44.4 %	41.7 %

Gross profit margin 46.1% 41.9% 44.4% 41.7%

The gross profit margin increased 4.2% and 2.7% for the fiscal quarter and six fiscal months ended June 30, 2018, respectively, when compared to the comparable prior year periods due to higher volume and favorable exchange rate impacts.

Force Sensors

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

	Fiscal quarter ended		Six fiscal months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net revenues	\$19,358	\$15,656	\$38,586	\$31,124
Change versus comparable prior year period	\$3,702		\$7,462	
Percentage change versus prior year period	23.6 %		24.0 %	

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

	vs. prior year quarter	vs. prior year- to-date
Change attributable to:		
Change in volume	21.2 %	20.6 %
Change in average selling prices	(0.2)%	(0.5)%
Foreign currency effects	2.6 %	3.9 %
Net change	23.6 %	24.0 %

Net revenues increased 23.6% and 24.0% for the fiscal quarter and six fiscal months ended June 30, 2018, respectively, as compared to the comparable prior year periods, mainly due to higher volume with OEM customers in the force measurement and precision weighing markets, primarily in the Americas, and favorable exchange rate impacts.

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

	Fiscal quarter ended	Six fiscal months ended
	June 30 2018	July 1, 2017
	29.4%	28.9%
	28.3%	26.4%

Gross profit margin 29.4% 28.9% 28.3% 26.4%

The gross profit margin for the fiscal quarter and six fiscal months ended June 30, 2018 increased 0.5% and 1.9%, respectively, compared to the comparable prior year periods mainly due to higher volume and favorable exchange rate impacts.

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 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net revenues	\$20,671	\$17,357	\$40,380	\$33,912
Change versus comparable prior year period	\$3,314		\$6,468	
Percentage change versus prior year period	19.1 %		19.1 %	

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

	vs. prior year quarter	vs. prior year- to-date
Change attributable to:		
Change in volume	13.4 %	11.6 %
Change in average selling prices	0.2 %	0.4 %
Foreign currency effects	5.5 %	7.1 %
Net change	19.1 %	19.1 %

Net revenues increased 19.1% for the fiscal quarter and six fiscal months ended June 30, 2018, as compared to the comparable prior year periods. The strong revenues are attributable to all product lines in all regions, coupled with favorable exchange rate impacts.

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

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	Fiscal quarter ended	June 30 2018	July 1, 2017	Six fiscal months ended June 30, 2018	July 1, 2017
Gross profit margin		48.0%	45.8%	46.0%	45.1%

-30-

The gross profit margin for the fiscal quarter and six fiscal months ended June 30, 2018 increased 2.2% and 0.9%, respectively, compared to the comparable prior year periods, mainly due to the improved revenues were generated from lower margin products and favorable exchange rate impacts.

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 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Total SG&A expenses	\$19,990	\$18,591	\$40,309	\$36,609

As a percentage of net revenues 26.9 % 29.8 % 27.4 % 30.0 %

SG&A expenses for the fiscal quarter ended June 30, 2018 were higher compared to the comparable prior year period mainly due to higher personnel costs, including wage increases, bonuses and higher headcount and \$0.4 million related to foreign currency effects. SG&A expenses for the six fiscal months ended June 30, 2018 were higher compared to the comparable prior year period mainly due to higher personnel costs, including wage increases, bonuses and higher headcount and \$1.3 million related to foreign currency effects.

Restructuring Costs

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

The Company recorded restructuring costs during the fiscal quarter and six fiscal months ended June 30, 2018 of \$0.1 million, which consisted mainly of employee termination costs in connection with cost reduction programs in Asia. During the fiscal quarter and six fiscal months ended July 1, 2017, the Company recorded aggregate restructuring costs of \$0.3 million and \$0.9 million, respectively, which consisted mainly of employee termination costs and facility closure costs incurred in connection with various cost reduction programs in Europe, the United States and Canada.

Other Income (Expense)

Interest expense for the fiscal quarter and six fiscal months ended June 30, 2018 was comparable 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 30, 2018	July 1, 2017	Change
Foreign exchange gain (loss)	\$75	\$(258)	\$333
Interest income	137	18	119
Other	(484)	(331)	(153)
	\$(272)	\$(571)	\$299
	Six fiscal months ended		
	June 30, 2018	July 1, 2017	Change
Foreign exchange loss	\$(450)	\$(632)	\$182
Interest income	234	56	178
Other	(705)	(524)	(181)
	\$(921)	\$(1,100)	\$179

Foreign currency exchange gains and losses represent the impact of changes in foreign currency exchange rates. For the fiscal quarter ended June 30, 2018, the change in foreign exchange gains and losses during the period, as compared to the prior year period, is largely due to exposure to currency fluctuations with the Israeli shekel, the British pound, and the Canadian dollar. For the six fiscal months ended June 30, 2018, the change in foreign exchange gains and losses during the period, as compared to the prior year period, is largely due to exposure to currency fluctuations with the Israeli shekel, the British pound, the Japanese yen, and the Canadian dollar.

Income Taxes

On December 22, 2017, the 2017 Tax Act was enacted. The 2017 Tax Act significantly changed U.S. tax law by, among other things, lowering the corporate tax rate, implementing a partial territorial tax system, and imposing a one-time transition tax on post 1986 undistributed foreign earnings as of December 31, 2017.

On December 22, 2017 the SEC staff issued SAB 118 to address the application of U.S. GAAP in situations when a registrant does not have all the necessary information available to prepare and analyze the accounting treatment for the proper recognition of the tax impact of the 2017 Tax Act. In accordance with SAB 118 the financial reporting impact of the 2017 Tax Act will be completed in the fourth quarter of 2018.

As of June 30, 2018, the Company has not completed the analysis of all the tax effects of the 2017 Tax Act and has not recorded any additional adjustments to the provisional amounts recorded at December 31, 2017 year end. We will continue to make and refine our calculations as additional analysis is completed. Our estimates may also be affected as we gain a more thorough understanding of the tax law. These changes could be material to income tax expense

The 2017 Tax Act subjects a US shareholder to tax on Global Intangible Low-Taxed Income (“GILTI”) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. As of June 30, 2018, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we have included GILTI related to current-year operations only in our Estimated Annual Effective Tax Rate and have not provided additional GILTI on deferred items.

The effective tax rate for the fiscal quarter ended June 30, 2018 was 27.3% compared to 24.9% for the fiscal quarter ended July 1, 2017. The effective tax rate for the six fiscal months ended June 30, 2018 was 28.4% compared to

27.8% for the six fiscal months ended July 1, 2017. The tax rate in the current fiscal quarter is higher than the prior year fiscal quarter because of the impact in the current quarter of certain discrete tax items, primarily having to do with foreign exchange gains and losses on the Israeli shekel. The current six fiscal month tax rate is higher than the prior year six fiscal month tax rate as a result of tax rate change benefits and foreign exchange losses recognized in the prior year fiscal period, while foreign exchange gains were recognized in the current fiscal period.

-32-

We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. We consider whether valuation allowances should be established against deferred tax assets based on all available evidence, both positive and negative, using a “more likely than not” standard. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, and our ability to identify feasible tax planning strategies. Deferred tax assets may not be recognized in jurisdictions where there is a history of cumulative losses, where there is no taxable income in the carryback period, where there is insufficient evidence to support future earnings and where there is no other positive evidence, such as the likely reversal of taxable temporary differences, that would result in the utilization of deferred tax assets.

-33-

Financial Condition, Liquidity, and Capital Resources

We believe that our current cash and cash equivalents, credit facilities and projected cash from operations will be sufficient to meet our liquidity needs for at least the next 12 months.

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

According to our credit agreement, borrowings under all facilities bear interest at either, upon our option, (1) a base rate which is the greater of the agent's prime rate, the Federal Funds rate, or a LIBOR floor, plus a margin of 0.25% or (2) LIBOR plus, depending upon our leverage ratio, an interest rate margin ranging from 2.00% to 3.50%. We are also required to pay a quarterly fee of 0.30% per annum to 0.50% per annum on the unused portion of the secured revolving facility, which is determined based on our leverage ratio each quarter. Additional customary fees apply with respect to letters of credit.

The obligations of VPG and the guarantors under our credit agreement are secured by substantially all the assets (excluding real estate) of VPG, and by pledges of stock in certain domestic and foreign subsidiaries, as well as guarantees by substantially all of our domestic subsidiaries and the assets (excluding real estate) of the guarantors. The VPG Canada term facility is secured by substantially all the assets of VPG Canada, and by a secured guarantee of VPG and our domestic subsidiaries. The credit agreement restricts us from paying cash dividends, and requires us to comply with other customary covenants, representations, and warranties, including the maintenance of specific financial ratios. The financial maintenance covenants include a tangible net worth ratio, a leverage ratio, and a fixed charges coverage ratio. We were in compliance with these covenants at June 30, 2018. 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.

During the first quarter of 2018, a holder of the Company's exchangeable notes exercised its option to exchange the remaining \$2.8 million principal amount of the notes for 123,808 shares of VPG common stock at a contractual put/call rate of \$22.57 per share. Following this transaction, all exchangeable notes have been canceled and VPG has no further obligations pursuant to such notes.

Our other long-term debt is not significant and consists of zero percent interest rate debt held by our Japanese subsidiary of approximately \$0.3 million at June 30, 2018 and \$0.4 million at December 31, 2017.

Due to our strong product portfolio and market position, our business has historically generated operating cash flow. For the six fiscal months ended June 30, 2018, cash provided by operating activities was \$7.4 million. Cash provided by operating activities for the six fiscal months ended July 1, 2017 was \$7.3 million.

Free cash generated during the six fiscal months ended June 30, 2018, was \$1.4 million. We refer to the amount of cash provided by operating activities (\$7.4 million) in excess of our capital expenditures (\$6.1 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. Free cash is also used as a metric for certain of our performance-based equity compensation awards.

The following table summarizes the components of net cash (debt) at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$74,713	\$ 74,292
Third-party debt, including current and long-term:		
Term loans	16,714	20,500
Revolving debt	14,000	9,000
Third-party debt held by Japanese subsidiary	343	401
Exchangeable notes, due 2102	—	2,794
Deferred financing costs	(279)	(340)
Total third-party debt	30,778	32,355
Net cash	\$43,935	\$ 41,937

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

Approximately 95% and 93% of our cash and cash equivalents balance at June 30, 2018 and December 31, 2017, respectively, was held by our non-U.S. subsidiaries. As a result of the 2017 Tax Act, the Company reassessed its assertion with respect to the indefinite reinvestment for certain of the Company’s foreign subsidiaries and recorded a deferred tax liability of approximately \$1.8 million of withholding tax associated with the planned cash distribution of approximately \$25.5 million at December 31, 2017. The Company will continue to evaluate its cash needs, however we currently do not intend to repatriate funds in excess of the \$25.5 million that could be subject to local tax or local withholding tax. The Company will evaluate the possibility of repatriating future cash provided such repatriation can be accomplished in a tax efficient manner. In addition, we expect existing domestic cash, short-term investments, and cash flows from operations to continue to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities, such as debt repayment and capital expenditures, for at least the next 12 months and thereafter for the foreseeable future.

See the following table for the percentage of cash and cash equivalents, by region, at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Israel	40 %	37 %
Asia	21 %	28 %
Europe	16 %	15 %
United States	5 %	7 %
United Kingdom	13 %	5 %
Canada	5 %	8 %
	100%	100 %

Our financial condition as of June 30, 2018 remains strong, with a current ratio (current assets to current liabilities) of 4.1 to 1.0, as compared to a ratio of 3.7 to 1.0 at December 31, 2017.

Cash paid for property and equipment for the six fiscal months ended June 30, 2018 was \$6.1 million compared to \$3.1 million in the comparable prior year period. Capital expenditures for the six fiscal months ended June 30, 2018 are comprised of projects related to the normal maintenance of the business.

Contractual Commitments

Our Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 15, 2018, includes a table of contractual commitments. There were no material changes to these commitments since the filing of our Annual Report on Form 10-K.

-35-

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; difficulties or delays in completing acquisitions and integrating acquired companies; 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 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 achieve efficiencies; significant developments from the recent and potential changes in tariffs and trade regulation; 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, 2017. 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, 2017, filed with the SEC on March 15, 2018.

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”). As described below, management has identified a material weakness in our internal control over financial reporting which is an integral component of our disclosure controls and procedures. As a result of the material weakness that existed as of December 31, 2017, and continued to exist as of June 30, 2018, our CEO and CFO concluded that our disclosure controls and procedures were not 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

As previously disclosed in Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, management concluded that there was a material weakness in internal controls as of December 31, 2017 due to the aggregation of certain internal control deficiencies related to the design, operating effectiveness and monitoring of various transaction and monitoring controls. The Company has undergone significant changes in size, complexity and structure of the organization due to multiple restructurings and multiple acquisitions. These activities caused operations to be moved and consolidated, a reduction in personnel in certain locations while adding personnel from acquisitions in other locations, and a general change in operating structure. We did not update the control activities documentation for numerous locations and, in some cases, did not change control processes to reflect the changes from the restructurings, acquisition activities or general changes in operating structure. This contributed to design and operating deficiencies in our internal controls. Further, we found our monitoring of the design and effectiveness of controls either did not occur or failed to identify various control design and operating deficiencies amidst such significant changes. The absence of a robust monitoring function allowed deficiencies present in the internal control structure to remain undetected by our monitoring processes.

Our management has developed and commenced implementation of a plan to remediate the material weakness in our internal control over financial reporting by expanding the internal audit function at the Company to examine and update our internal control processes, to update the control activities documentation, to perform expanded risk assessment activities, to implement controls to mitigate the risks identified and to redesign our monitoring program to improve the identification, reporting and remediation of control deficiencies. Our remediation efforts were not complete as of June 30, 2018. Our management expects the remediation plan to extend over multiple financial reporting periods throughout 2018. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address the material weakness or modify certain of the remediation measures. Once all remedial actions have been implemented, these actions will be tested to determine whether the applicable controls are operating effectively.

Except as noted in the preceding paragraphs, during our last fiscal quarter ended June 30, 2018, 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

None.

Item 1A. RISK FACTORS

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 15, 2018. There have been no material changes in reported risk factors from the information reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, except as described below. Significant developments from the recent and potential changes in tariffs, trade regulation or other restrictions may adversely impact our business, financial condition and results of operations.

We have manufacturing operations in China, Europe, Canada, and the United States, as well as in other countries. If significant tariffs or other restrictions are placed on Chinese, European, or Canadian imports to the United States, or if any related counter-measures are taken by the countries involved, our revenues and results of operations may be materially harmed. The current U.S. administration has voiced strong concerns about imports from countries that it perceives as engaging in unfair trade practices, and may decide to impose import duties or other restrictions on products or raw materials sourced from those countries, which may include China and other countries from which we import or from which we export. In March 2018, President Trump imposed a 25% tariff on steel imports and a 10% tariff on aluminum imports and announced additional tariffs on goods imported from China specifically, as well as certain other countries. These new tariffs, or other changes in U.S. trade policy, could trigger retaliatory actions by affected countries. Certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods. We cannot predict future trade policy or the terms of any renegotiated trade agreements and their impacts on our business. The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental actions related to tariffs, quotas, duties, taxes or trade agreements or policies has the potential to adversely impact demand for our products, our costs, our customers, and our suppliers, which in turn could adversely impact our business, financial condition and results of operations.

The risks described in our Form 10-K and above are not the only risks that we face. Additional risks not presently known to us, or that we do not currently consider significant, may also have an adverse effect on us. If any of the risks actually occur, our business, results of operations, cash flows or financial condition could suffer.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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 30, 2018, 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, 2018