Vishay Precision Group, Inc.
Form 10-K
March 12, 2013

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-34679

Vishay Precision Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	27-0986328
(State or other jurisdiction of incorporation or organization)	(IRS employer identification no.)

3 Great Valley Parkway, Suite 150
Malvern, PA 19355
(Address of principal executive offices)

484-321-5300
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.10 par value	New York Stock Exchange
(Title of class)	(Exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Note Checking the box above will not relieve any registrant required to file reports under Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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 (§ 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** x No o

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

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

Large accelerated filer o	**Non-accelerated filer** o
Accelerated filer x	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the registrant s most recently completed second fiscal quarter ($13.95 on June 30, 2012), assuming conversion of all of its Class B convertible common stock held by non-affiliates into common stock of the registrant, was $177,881,000. There is no non-voting stock outstanding.

As of March 12, 2013, the registrant had 12,345,722 shares of its common stock and 1,025,176 shares of its Class B convertible common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement, which will be filed within 120 days of December 31, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Vishay Precision Group, Inc.

Form 10-K for the year ended December 31, 2012

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PART I

Item 1. BUSINESS DESCRIPTION

General

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

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

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

The Company has a long heritage of innovation in precision foil resistors and foil strain gages, which served as a foundation for its expansion into strain gage instrumentation, load cells, transducers, weighing modules, and complete systems for process control and on-board weighing.

Our History

In the 1950 s, the late Dr. Felix Zandman was issued patents for PhotoStress® coatings and instruments, used to reveal and measure the distribution of stresses in structures such as airplanes and cars under live load conditions. His research in this area led him to develop Bulk Metal® foil resistors and resistive current sensors with performance beyond any other resistor currently available in the global market.

Resistors are basic components used in all forms of electronic circuitry to adjust and regulate levels of voltage and current. They vary widely in precision and cost, and are manufactured from numerous materials and in many forms. Foil resistors are the most precise and stable type of resistors currently available.

In 1962, Dr. Zandman founded Vishay Intertechnology Inc. (Vishay Intertechnology) to develop and manufacture the first generation of Bulk Metal® foil resistors and later, foil strain gages. A strain gage is a resistive sensor that is attached to the surface of an object to determine the surface strain caused by an applied force.

Throughout the 1960 s and 1970 s, Vishay Intertechnology established itself as a technical and market leader in precision foil resistors, PhotoStress® products, and foil strain gages. These innovations were the genesis of the foil technology that is the foundation of Vishay Precision Group. The subsequent innovations and advancement of foil resistance and strain gage technology opened the door to numerous commercial applications, such as force sensors and control systems on a vertical market basis.

In the decade prior to our spin-off, Vishay Intertechnology expanded their measurement business through acquisitions, extending the business from its initial focus on precision foil resistors and foil strain gages to include: transducers/load cells, which are force sensors combining strain gages and the metallic structures to which they are bonded; load cell modules that utilize electronic instrumentation and software for measuring the load cell output; and measurement instrumentation and complete systems for process control and on-board weighing.

On July 6, 2010, Vishay Intertechnology spun off its precision measurement and foil technology businesses through a tax-free stock dividend of VPG stock to Vishay Intertechnology s stockholders and we became a publicly-traded company. We are an established, multi-national company that excels in the design and manufacture of sensors based on resistive foil technology and sensor-based systems specializing in the growing markets of stress, force, weight, pressure, and current measurements.

Our growth and acquisition strategy has been largely focused on vertical product integration, using our foil strain gages in our force sensor products and incorporating our sensors and electronic measurement instrumentation (containing foil resistors) and software into our weighing and control systems. Precision foil resistor products are used in many of the control systems that we manufacture. Many of our acquisitions over the years have been directed towards furthering our vertical integration strategy, and we expect to continue to focus our acquisition strategy in this direction, as exemplified by our acquisition of the assets of the George Kelk Corporation (KELK) in January 2013.

The following describes some of our acquisitions since 2002 when we were a part of Vishay Intertechnology:

- In January 2002, we acquired the load cell and strain gage business of Sensortronics, Inc. As part of our acquisition of Sensortronics, we obtained a 49% interest in a joint venture in India.
- In June 2002, we acquired Tedea-Huntleigh BV, a leading manufacturer of load cells used in digital scales by the weighing industry. With the Tedea-Huntleigh acquisition, we acquired manufacturing facilities in Israel, the People s Republic of China and France.
- In July 2002, we purchased the BLH and Nobel businesses from Thermo Electron Corporation. The BLH and Nobel businesses produce load cell based process weighing systems, weighing and batching instruments, web tension transducers, weighing scales, servo control systems, and components relating to load cells, including foil strain gages. As part of our acquisition of these businesses, we acquired our manufacturing facilities in Sweden and Costa Rica.
- In October 2002, we acquired Celtron Technologies, Inc., another company engaged in the production and sale of load cells used in digital scales for the weighing industry. As part of our acquisition of Celtron, we acquired leased manufacturing facilities in the Republic of China (Taiwan) and the People s Republic of China.
- In April 2005, we acquired all of the capital stock of SI Technologies, Inc., which had been a publicly-traded company on the NASDAQ Stock Market. Our SI Technologies business designs, manufactures, and markets high-performance industrial load cells, weighing and factory automation systems, and related products.
- In November 2005, we acquired Alpha Electronics Corp., a Japanese manufacturer of foil resistors. As part of our acquisition of Alpha Electronics, we acquired our manufacturing facility in Akita, Japan.
- In April 2007, we completed a tender offer to acquire PM Group PLC, which had been a publicly-traded company on the London Stock Exchange. PM Group, through its PM Onboard business, is an advanced designer and manufacturer of systems used in the weighing and process control industries. As a part of our acquisition of PM Group, we acquired our manufacturing facility in Bradford, UK.
- In June 2008, we acquired our partner s 51% interest in the transducers manufacturing joint venture in India. Concurrent with this transaction, we moved into a new leased manufacturing facility in Chennai, India, an operation we moved to an expanded facility we built in Oragadam in 2011.
- In July 2008, we acquired Powertron GmbH, a manufacturer of specialty precision resistors. As a part of our acquisition of Powertron, we acquired our manufacturing facility in Teltow, Germany.

In January 2013, we completed our first acquisition as an independent public company. We acquired substantially all of the assets of the George Kelk Corporation. KELK engineers, designs and manufactures highly accurate optical and electronic roll force measurement and control equipment primarily used by metals rolling mills and mining applications throughout the world. As a part of our acquisition, we acquired a manufacturing, engineering, sales and administrative facility in Toronto, Canada.

We also have manufacturing facilities in Wendell, North Carolina; Be er Sheva, Israel; and Holon, Israel.

We were incorporated in Delaware on August 28, 2009. Our principal executive offices are located at 3 Great Valley Parkway, Suite 150, Malvern, PA 19355. Our main telephone number is 484-321-5300.

Key Business Vision and Strategies

Our vision is to be the leading provider of foil components, sensors, and sensor-based systems with the highest precision, quality, and service for measuring force (weight, pressure, torque, acceleration) and current.

Our strategy is to achieve corporate growth and shareholder value by expanding our existing product portfolio organically, as well as by acquiring complementary technology products that are within our vertically integrated structure and utilize our resistive foil technology. Specifically, we are focused on the following strategic initiatives:

Optimize Core Competence

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

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

We also seek to achieve significant production cost savings through the transfer, expansion, and construction of manufacturing operations in countries such as India, Costa Rica, Israel, the People s Republic of China, and the Republic of China (Taiwan), where we can benefit from lower labor costs or available tax and other government-sponsored incentives.

Organic Growth

Our product portfolio is focused, to a significant extent, on specialty products. The development of specialty products requires us to form long-term relationships with our customers. Our specialty products are usually designed to meet unique specifications for OEMs. This often results in our customers creating a non-standard part number used solely to designate our product on their bill of materials. We call this customer activity a design win. This activity may create organic growth as the OEM customer begins to order increasing quantities to meet their production requirements, with little or no opportunity to purchase a similar part or utilize competing suppliers. The design in time for these initiatives is typically 12 to 24 months.

We expect to continue to use our research and development, engineering, and product marketing resources to introduce new and innovative specialty products. Our ability to react to changing customer needs, emerging markets, and industry trends will continue to be a key to our success.

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.

Growth from Acquisitions

We expect to continue to make strategic acquisitions where opportunities present themselves to grow our segments. This strategy is most recently exemplified by our acquisition of the KELK business in January 2013. We believe acquired businesses will benefit from improvements we implement to reduce redundant functions and from our current global manufacturing operations and distribution channels.

Product Segments

Our products are primarily based on our resistive foil technology which continues to evolve for different applications used in many markets.

Foil Technology Products

The Foil Technology Products segment includes our foil resistor and strain gage operating segments. The products in these segments are based on our resistive foil technology, which continues to evolve and enables both products to be suited for new and varied applications. The manufacturing of the foil material is a critical and common component of the Company s strain gage and precision resistor businesses, and as a result, we experience synergies between our foil resistor and strain gage operating segments. The production cycles for foil resistors and strain gages are similar and many of the same raw materials are utilized in the manufacturing processes for both operating segments. The foil resistor and strain gage products require a similar level of labor and capital. Our strain gage operating segment sells a significant amount of foil inventory to the Company s foil resistor operating segment. A majority of products from this operating segment are sold to third parties as standard catalog items ; the remainder of this segment s products are sold as non-standard and/or custom products to third parties and to our Force Sensors segment.

Force Sensors

The Force Sensors segment includes a broad line of load cells and force measurement transducers that are offered as precision sensors for industrial and commercial use. Typical applications for the weighing industry include process control weighing, medical devices, construction off-road vehicles, and agricultural equipment. These sensors use our foil technology products, which serve as sensing elements and components within each unit. Further integration of our load cells is also offered as weighing modules, which provide customers with a complete sensor assembly that may be used within a wide variety of digital transducers. A majority of products from this segment are sold to third parties as standard catalog items ; the remainder of this segment s products is sold as non-standard and/or custom products to third parties and to our Weighing and Control Systems segment. Direct sales channels (field application engineers (FAEs)) are utilized as the primary customer interface relating to initial design specifications, development of prototypes, and pricing/delivery of this segment s products. Distributors are also used for those customers that desire primarily standard, as is products.

Weighing and Control Systems

The Weighing and Control Systems segment designs and manufactures complete systems comprised of load cells and instrumentation for weighing and force control/measurement for a variety of uses, including on-board weighing and overload monitor systems. The Weighing and Control Systems segment acquires almost all of the load cells it requires from our Force Sensors segment. As such, the Company considers the load cell production line to be an integral component of the Weighing and Control Systems segment s production process. Other major components that comprise our systems are: electronic displays; optical gages; signal processors; cabling; system software; and communication software/hardware. The end use for the majority of these products is the precision measurement of weight or force. Direct sales channels (FAEs) are utilized as the primary customer interface relating to initial design specifications, development of prototypes, and pricing/delivery of this segment s products. Distributors are used for those customers that desire primarily standard, as is products. With the addition of KELK, the Company will also use agents to sell certain of its products.

Products

Our precision foil resistors and strain gages are based on our proprietary foil technology, which we invented. We manufacture and sell high precision foil resistors, foil strain gages and strain gage instruments containing foil resistors. To date, through our vertical integration strategy, we have added products such as load cells, transducers, weighing modules, and complete systems for process control and on-board weighing applications.

Our product portfolio includes:

- *Bulk Metal® foil resistors* Foil resistors are the most precise and stable type of resistors currently available. Resistors are basic components used in all forms of electronic circuitry to adjust and regulate levels of voltage and current. Our foil resistors and current sensors are used in applications requiring a high degree of precision and stability, such as in medical applications, precision equipment for front-end and back-end semiconductor testing and semiconductor fabrication equipment, and avionics/military/aerospace applications. A very low value resistor can also be used to calculate electrical current by measuring the small voltage drop across its terminals.
- *Foil strain gages* Strain gages are resistive sensors that are attached to the surface of an object to determine the surface strain caused by an applied force. Typical uses of strain gages include test and measurement applications where the strength of the object is the main consideration and the object under test is a structural component in a machine or device such as an automobile, an aircraft, or a highway bridge. Strain gages are also used inside precision transducers where the magnitude of an applied force is the focus of the measurement. A variety of physical measurements can be made using strain gages attached to metal components including force, weight, pressure, displacement, and acceleration.
- *Transducers and load cells* Foil strain gage transducers consist of one or more strain gages bonded to a metallic support. The term load cell is primarily used to describe transducers used in weighing applications. A transducer is mounted on a structure that is subjected to weight or other stress, such as the platform of an industrial scale. The change in resistance of the strain gages in response to deformation of the transducer by the applied load is detected by electronic instrumentation. Transducers are manufactured with different designs and configurations depending on their application and the type of stress or strain to be measured; for example weight or tension. We produce both analog and digital transducers.
- *Modules* Modules are transducers combined with a mounting and with external features, such as instruments and cables, and are used for weighing and control applications.
- *Instruments* Instruments measure, process, digitize, display, and record the output of our strain gages, transducers, and control systems.
- *Weighing and control systems* Weighing and control systems are integrated systems for the detection and measurement of weight and other types of force, primarily for use in industrial applications. These include systems to control process weighing in food, chemical, and pharmaceutical plants; force measurement systems used to control web tension in paper mills, roller force in steel mills, and cable tension in winch controls; on-board weighing systems installed in logging and waste-handling trucks; and special scale systems used for aircraft weighing and portable truck weighing. With our recent acquisition, we have added certain optical gages for control systems and enhanced our other product offerings for the steel mill industry.
- *PhotoStress® products* PhotoStress coatings and instruments use a unique optical process to reveal and measure the distribution of stresses in structures under live load conditions. They are used to improve structural design in aerospace, automotive, military, civil engineering, industrial, and mechanical applications.

Qualifications and Specifications

Certain of our products must be qualified or approved under various military and aerospace specifications and other standards.

We have qualified certain of our foil resistor and sensor products under various military specifications approved and monitored by the United States Defense Logistics Agency (DLA), under certain European military specifications, and various aerospace standards approved by the U.S. National Aeronautics and Space Administration (NASA) and the European Space Agency (ESA).

Certain of our load cell and instrumentation products are approved by the National Type Evaluation Program (NTEP) and International Organization of Legal Metrology (OIML). Many of our weighing systems must also meet these standards to make them usable for legal-for-trade weighing applications. Products and systems that are to be used in hazardous areas, where explosive atmospheres might exist, must comply with special safety standards, such as the European Atmosphère Explosible (ATEX) Standard and the U.S. Factory Mutual (FM) Standard.

Qualification and specification levels are based in part upon the rate of failure of products. We must continuously perform tests on our products, and for products that are qualified, the results of these tests must be reported to the qualifying organization. If a product fails to meet the requirements for the applicable classification level, the product s classification may be suspended or reduced to a lower level. During the time that the classification is suspended or reduced to a lower level, net revenues and earnings attributable to that product may be adversely affected.

Manufacturing Operations

Our principal manufacturing facilities are located in Israel, the United States (North Carolina), India, the People s Republic of China, Japan, and Costa Rica. We also have manufacturing facilities in Germany, Sweden, the United Kingdom, the Republic of China (Taiwan), and France. With the acquisition of KELK in January 2013, we added another principal manufacturing facility located in Canada. Over the past several years, we have invested substantial resources to increase capacity and to maximize automation in our plants, which we believe will further reduce production costs.

We have quality systems at all of our major manufacturing facilities approved under the ISO 9001 international quality control standard. ISO 9001 is a comprehensive set of quality program standards developed by the International Standards Organization.

To maintain our cost competitiveness, we are pursuing our strategic initiatives to shift manufacturing emphasis to more advanced automation in higher-labor-cost regions and to relocate production to regions with skilled workforces and relatively lower labor costs. See additional information in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Cost Management related to our restructuring efforts.

Sources of Supplies

Although most materials incorporated in our products are available from a number of sources, certain materials are available only from a relatively limited number of suppliers. The principal materials used in our products include various metallic foil alloys, aluminum, stainless steel, tool steel, plastics, and for a few products, gold. Some of the most highly specialized materials for our sensors are sourced from a single vendor. We maintain a safety stock inventory of certain critical materials at our facilities. Our products do not contain significant amounts of precious metals. We do not purchase any rare earth metals or tantalum.

Due to our vertical integration structure, our Force Sensors and Weighing and Control Systems segment products are based principally on strain gages produced by our Foil Technology Products segment.

Israeli Government Incentives

We have substantial manufacturing operations in Israel, where we benefit from the government s tax incentive programs. These benefits take the form of reduced tax rates that are lower than those in the United States.

Inventory and Backlog

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

We include in our backlog only open orders that have been released by the customer for shipment in the next twelve months. Many of our customers for strain gages, load cells, and foil resistors encounter uncertain and changing demand for their products. They typically order products from us based on their forecasts. If demand falls below customers forecasts, or if customers do not control their inventory effectively, they may cancel or reschedule the shipments that are included in our backlog, in many instances without the payment of any penalty. Therefore, the backlog at any point in time is not necessarily indicative of the results to be expected for future periods.

Customers and Marketing

Our customer base is diversified in terms of industry, geographic region, and range of product needs. No single customer accounts for more than 5% of our net revenues. The vast majority of our products are used in the broad industrial market, with selected uses in the military/aerospace, medical, agricultural, and construction sectors. Within the broad industrial market, our products serve a wide variety of applications in waste management, bulk hauling, logging, scales manufacturing, engineering systems, pharmaceutical, oil, chemical, steel, paper, and food industries.

Our sales are global, with approximately 41% of our net revenues attributable to customers in the Americas, approximately 41% of our revenues attributable to customers in Europe, and approximately 18% of our revenues attributable to customers in Asia for the fiscal year ended December 31, 2012. We sell through a variety of sales channels, including OEMs, electronic manufacturing services companies (EMS) (which manufacture for OEMs on an outsourcing basis), independent distributors, and we sell directly to end-use customers. During 2012, sales channels for our three reporting segments were as follows:

	Foil Technology Products	Force Sensors	Weighing and Control Systems
OEMs	37%	70%	42%
EMS	9%	-	-
Distributors	30%	25%	22%
End users	24%	5%	36%
	100%	100%	100%

Many of our products have historically been sold by dedicated sales forces consisting mainly of FAEs focusing on specific market segments or specific customers. The FAEs help identify the products in our portfolio that best meet the needs of our customers and provide technical and applications support. Their in-depth knowledge of customer needs is a key factor in new product design and future research and development initiatives.

Competition

Our competitive success depends on our ability to maintain a competitive advantage on the basis of superior product capability and performance, product quality, know-how, proprietary data, market knowledge, service capability, and business reputation. Price competitiveness can be an important factor, especially within our Force Sensors segment. Our sales and marketing programs offer our customers a broad range of world-class precision technologies, and superior global sales and support.

Competition in the markets where we sell the bulk of our products is extremely fragmented, both geographically and by application. To our knowledge, there are no competitors with the same product mix and proprietary technology as ours. Our competitors range from very small, local companies to large, international companies with greater financial resources than us. Our foil resistors and our foil strain gages, where we maintain a leading market share, are based on our proprietary technology. Competitors often compete in this area with functionally equivalent but alternative products.

Research and Development

Many of our products, manufacturing techniques, and technologies have been invented, designed, and developed by our engineers and scientists. Special proprietary resistive metallic foil is the most important material in both our foil resistors and our foil strain gages, and our research and development activities related to foil materials is an important linkage between these two products. We maintain strategically placed design centers where proximity to customers enables us to more easily monitor and satisfy the needs of local markets. These design centers are located in Israel, the United States, Sweden, Japan, the United Kingdom, India, the People s Republic of China, the Republic of China (Taiwan), Germany and France. With the acquisition of KELK in January 2013, we have added additional research and development capabilities in Canada.

We also maintain research and development staff and promote programs at a number of our production facilities to develop new products and new applications of existing products, and to improve manufacturing techniques. This decentralized system encourages individualized product development at specific manufacturing facilities that occasionally has applications at other facilities.

Our research and development staff and our sales force are closely linked. Our sales force is comprised of individuals with an engineering background who can help meet the needs of our customers for technical and applications support. This in-depth knowledge of customer needs and specifications is a key factor in future research and development initiatives.

Research and development will continue to play a key role in our efforts to introduce innovative products for 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 and, ultimately, our financial performance. To that end, we expect to increase our R&D expenditures in order to fill the product development pipeline and lay the foundation for future sales growth.

Patents and Licenses

We have made a significant investment in securing intellectual property protection for our technology and products. We seek to protect our technology by, among other things, filing patent applications for technology considered important to the development of our business. Although we have numerous United States and foreign patents covering certain of our products and manufacturing processes, no particular patent is considered individually material to our business. We also rely upon trade secrets, unpatented know-how, and continuing technological innovation.

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

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

Environmental, Health and Safety

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

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

Employees

As of December 31, 2012, we employed approximately 2,250 full-time employees, of whom approximately 86% were located outside the United States. Our future success is substantially dependent on our ability to attract and retain highly qualified technical and administrative personnel. Some of our employees outside the United States are members of trade unions. Our relationship with our employees is generally good. However, no assurance can be given that labor unrest or strikes will not occur.

Executive Officers

The following table sets forth certain information regarding our executive officers as of March 12, 2013:

Name	Age	Positions
Ziv Shoshani	46	Chief Executive Officer, President, and Director
William M. Clancy	50	Executive Vice President and Chief Financial Officer
Thomas P. Kieffer	60	Senior Vice President and Chief Technical Officer

Ziv Shoshani is our Chief Executive Officer and President, and also serves on the board of directors. Mr. Shoshani was Chief Operating Officer of Vishay Intertechnology from January 1, 2007 to November 1, 2009. During 2006, he was Deputy Chief Operating Officer of Vishay Intertechnology. Mr. Shoshani was Executive Vice President of Vishay Intertechnology from 2000 to 2009 with various areas of responsibility, including Executive Vice President of the Capacitors and the Resistors businesses, as well as heading the Measurements Group and Foil Divisions. Mr. Shoshani had been employed by Vishay Intertechnology since 1995. He continues to serve on the Vishay Intertechnology board of directors. Mr. Shoshani is a nephew of the late Dr. Felix Zandman, the founder of Vishay Intertechnology.

William M. Clancy is our Executive Vice President and Chief Financial Officer. Mr. Clancy was Corporate Controller of Vishay Intertechnology from 1993 until November 1, 2009. He became a Vice President of Vishay Intertechnology in 2001 and a Senior Vice President of Vishay Intertechnology in 2005. Mr. Clancy served as Corporate Secretary of Vishay Intertechnology from 2006 to 2009. From June 16, 2000 until May 16, 2005 (the date Vishay Intertechnology acquired the noncontrolling interest in Siliconix incorporated), Mr. Clancy served as the principal accounting officer of Siliconix. Mr. Clancy had been employed by Vishay Intertechnology since 1988.

Thomas P. Kieffer is our Senior Vice President and Chief Technical Officer. Mr. Kieffer was promoted to the position of Senior Vice President Corporate R&D for Vishay Intertechnology s Measurements Group and Foil Resistors Division on January 1, 2008. Prior to that, Mr. Kieffer was Senior Vice President of Vishay Intertechnology s Micro-Measurements and Load Cells Divisions. He became Division Head of Vishay Intertechnology s Measurements Group Division in 2000 and from 2002 through 2005 was involved in several acquisitions of measurements businesses. Mr. Kieffer had been employed by Vishay Intertechnology since 1984.

Company Information and Website

We began filing annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 after our spin-off from Vishay Intertechnology on July 6, 2010. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at Station Place, 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at www.sec.gov.

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

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

- Compensation Committee Charter
- Nominating and Corporate Governance Committee Charter
- Audit Committee Charter
- Code of Business Conduct and Ethics
- Code of Ethics Applicable to the Chief Executive Officer, Chief Financial Officer, and Principal Accounting Officer or Controller
- Corporate Governance Principles

To view these documents, access http://ir.vishaypg.com and click on Corporate Governance.

To view our Ethics Program Reporting Procedures, access http:/www.vishaypg.com/company and click on Ethics.

We are not incorporating by reference into this Annual Report on Form 10-K any material from our website.

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

Corporate Investor Relations
Vishay Precision Group, Inc.
3 Great Valley Parkway, Suite 150
Malvern, PA 19355

Item 1A. RISK FACTORS

You should carefully consider the following risks and other information in this Form 10-K in evaluating our company and common stock. Any of the following risks, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our business, results of operations or financial condition and could also adversely affect the trading price of our common stock.

Risks Related to Our Business

We face intense competition in our business.

We face various degrees and types of competition in our different businesses. In some cases our products compete directly with those of third party competitors. In other cases, competition at one business, such as for our Weighing and Control Systems segment, may affect the sales of our products that we incorporate in those systems from other segments, such as load cells and strain gages.

We have a significant market position in foil resistors and foil strain gages. Foil resistors and foil strain gages are also produced by competitors, principally located in China. We believe that our foil technology products provide superior performance relative to our competitors, but that could change if our competitors succeed in developing and introducing innovative competitive offerings. Also, our foil strain gages compete with other types of strain gages, such as semiconductor strain gages, which we do not manufacture. We believe that other types of strain gages are not as reliable or stable as our foil strain gages, but that could change as the technology for these other products continues to evolve. The ability of these competitors to improve the competitiveness or pricing of their products relative to our offering could adversely affect us.

The market for transducer/load cell products is highly fragmented and very competitive. Our load cell modules and systems face competition from numerous other load cell module and systems manufacturers. Competition for modules and systems is most often based on customer relationships, product reliability, technical performance, and the ability to anticipate and satisfy customer needs for specific design configurations. Many other manufacturers have more experience in particular geographic markets and specific applications than we do, and may be better positioned to compete in these areas. We cannot assure you that we will be able to successfully grow our business in the face of these competitive challenges.

Our vertical product integration exposes us to certain risks.

Our business organization is focused on vertical product integration. For example, we use our strain gages in our force sensor products and our force sensor business is our largest customer (by volume) for our strain gages. Our weighing and control systems business primarily uses our force sensor products in its systems. We also sell our strain gages and force sensor products to third-party customers. Many of the acquisitions which form the core operations of our business in recent years, including our recent acquisition of the KELK business, have been directed towards furthering our vertical integration organization.

While we believe this has been and will continue to be a sound business strategy, vertical product integration and the resulting interdependencies of our divisions exposes us to certain risks. As a consequence of our vertical integration, our force sensors business may compete with certain of our customers and potential customers for strain gages while our systems may compete with certain of our customers and potential customers for force sensors, who, for that reason, may elect not to do business with us.

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

Our long-term historical growth in revenues and net earnings has resulted in large part from our strategy of expansion through acquisitions. We cannot assure that we will identify, have the financial capabilities to acquire, or successfully complete transactions with suitable acquisition candidates in the future. We also cannot assure that acquisitions that we will complete in the future will be successful.

Such acquisitions or investments, including our recent acquisition of KELK, involve a number of risks, including the following:

- we may be unable to achieve the anticipated benefits from the acquisition or investment;
- we may have difficulty integrating the operations and personnel of the acquired business, and may have difficulty retaining the key personnel of the acquired business;
- we may have difficulty incorporating the acquired technologies or products with our existing solutions;
- our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically and culturally diverse locations; and
- we may lose customers of those companies due to the change in control or for other reasons.

The factors noted above could have a material adverse effect on our business, results of operations and financial condition or cash flows, particularly in the case of a larger acquisition, such as the KELK acquisition. From time to time, we may enter into negotiations for acquisitions or investments that are not ultimately consummated. These negotiations could result in significant diversion of management time, as well as out-of-pocket costs.

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

We financed a portion of the purchase price paid in the KELK acquisition with additional borrowings under our credit agreement. If we were to undertake future substantial acquisitions for cash, these acquisitions would likely need to be financed in part through bank borrowings or the issuance of public or private debt. This acquisition financing would likely decrease our ratio of earnings to fixed charges and adversely affect other credit metrics. Our revolving credit facilities require us to obtain the lenders consent for certain additional debt financing and to comply with other covenants, including the application of specific financial ratios. We cannot assure that the necessary acquisition financing would be available to us on acceptable terms, if and when, required. If we were to make an acquisition with equity, the acquisition may have a dilutive effect on the interests of the holders of our common stock.

We might require additional capital to support business growth, and this capital might not be available.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to develop new offerings or enhance our existing offerings, enhance our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

To remain successful, we must continue to innovate, and our investments in new technologies may not prove successful.

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

Our success is dependent upon our ability to protect our proprietary technology and other intellectual property.

We rely on a combination of the protections provided by applicable patent, trademark, copyright and trade secret laws, as well as on confidentiality procedures and other contractual arrangements, to establish and protect our rights in our technology and related materials and information. We enter into agreements with our customers and distributors. These agreements contain confidentiality and non-disclosure provisions, a limited warranty covering our products and indemnification for the customer from infringement actions related to our products.

Despite our efforts, it may be possible for others to copy portions of our products, reverse engineer them or obtain and use information that we regard as proprietary, all of which could adversely affect our competitive position. Furthermore, there can be no assurance that our competitors will not independently develop technology similar to ours. The laws of certain countries in which we manufacture do not protect our intellectual property rights to the same extent as the laws of the United States. In the Office of the United States Trade Representative (USTR) annual "Special 301" Report released on April 30, 2012, the adequacy and effectiveness of intellectual property protection in a number of foreign countries were analyzed.

A number of countries in which we manufacture are identified in the report as being on the Priority Watch List. In China, for instance, the USTR is concerned about the existence of serious obstacles to the effective protection of intellectual property rights, including the concern that China may treat foreign owned intellectual property differently than that owned or developed in China. The USTR also expressed concern that India continues to have a weak legal framework and ineffective overall enforcement. Argentina, Indonesia, Russia, Thailand, Ukraine, and Venezuela were also identified because of problems in intellectual property enforcement. The absence of harmonized intellectual property protection laws and effective enforcement makes it difficult to ensure consistent respect for patent and other intellectual property rights on a worldwide basis. As a result, it is possible that we will not be able to enforce our rights against third parties that misappropriate our proprietary technology in those countries.

The success of our business is highly dependent on maintenance of intellectual property rights.

The unauthorized use of our intellectual property rights may increase the cost of protecting these rights or reduce our revenues. We seek to protect trade secrets and our other proprietary technology in part by requiring each of our employees to enter into non-disclosure and intellectual property assignment agreements. In these agreements, the employee agrees to maintain the confidentiality of all of our proprietary information and, subject to certain exceptions, to assign to us all rights in any proprietary information or technology made or contributed by the employee during his or her employment. Generally, we do not enter into non-compete arrangements with our employees, with the exception of certain executives and, in some cases, one or more of the principals of the businesses that we acquire.

All of these types of agreements may be breached or be found unenforceable, and we may not have an adequate remedy for any such breach of, or inability to enforce, these agreements. We may initiate, or be subject to, claims or litigation for infringement of proprietary rights or to establish the validity of our proprietary rights, which could result in significant expense to us, cause product shipment delays, require us to enter royalty or licensing agreements, and divert the efforts of our technical and management personnel from productive tasks, whether or not such litigation were determined in our favor.

We may be exposed to product liability claims.

While our agreements with our customers and distributors typically contain provisions designed to limit our exposure to potential material product liability claims, including appropriate warranty, indemnification, damages waiver and limitation of liability provisions, it is possible that such provisions may not be effective under the laws of some jurisdictions, thus exposing us to substantial liability. Moreover, defending a suit, regardless of its merits, could entail substantial expense and require the time and attention of key management personnel. If product liability claims are brought against us, the costs associated with defending such claims may adversely affect our results of operations and future cash flows.

We must expend significant resources to obtain design wins without assurance that we will be successful.

In many cases, we must initiate communication with our customers, and convince the customer that our products and systems will offer solutions for its business that are technically superior and more cost effective compared to their existing arrangements. To do so we must often expend significant financial and human resources to develop technologically compelling products or systems with no guarantee that they will be adopted by our customers. The non-recurring engineering (NRE) costs for product development in these cases could be substantial and may adversely affect our profitability if we are unable to recover these costs.

Also, customers will often require a lengthy period of onsite testing before committing to purchase a product or system, during which period we will not receive material revenue from the customer. While a design win for our products and systems may result in a long period of recurring revenue during which we hope to recover our costs, we must often internally finance our development costs over significant time periods. If our products or systems fail to gain acceptance with our customers, we will likely be forced to absorb substantial NRE costs, which could adversely affect our business.

The long development times for certain of our products and systems may result in unpredictable fluctuations in revenue and results of operations.

Our force sensor products and weighing and control systems often involve long product development cycles, both to develop the product or system and to secure customer acceptance following what may be a lengthy onsite testing period. During product development and testing, we may incur substantial costs without corresponding revenues. If our custom product or system is ultimately accepted by the customer, we may then begin to realize substantial revenues from our development efforts.

In particular, our weighing and control systems can be priced for several hundred thousand dollars per unit, so that a contract to acquire one or more units can materially contribute to our revenues during the period or periods that we are permitted to recognize the contract revenues for accounting purposes. The nature of our products and systems may therefore result in substantial fluctuations in our operating results, including revenues and profitability, from period to period, even though there has been no fundamental change in our business or its prospects. This may make it difficult for investors to undertake period-to-period comparisons of our performance. Also, the fluctuating nature of key components of our revenues may limit the visibility of our management regarding performance in future periods and make it more difficult for our management to provide guidance to our investors.

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

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

The nature of the market for our products may render them particularly susceptible to downturns in the economic environment.

Our products are designed to replace and provide superior functionality over existing product infrastructure utilized by our customers. Often, it is only after introductory demonstrations by our sales and engineering teams that our customers come to appreciate the advantages of our products and systems and the long-term benefits of their adoption. Market factors, such as the recession that we have recently experienced, may make customers less receptive to adopting new technological solutions at our suggestion; even ones with demonstrated operational and financial advantages. During these periods, customers may defer or even cancel orders for products and systems for which they have previously contracted or given indications of interest.

Also, because our business is concentrated largely in the industrial sector, we do not benefit from countervailing fluctuations in consumer demand. As a result, our business may be more significantly affected by the consequences of a general economic slowdown than other segments of our industry and may also take longer to recover from the effects of a slowdown.

Another sustained slowdown or significant downturn in our global markets could materially and adversely affect our results of operations, financial condition or cash flows again.

Growth rates in certain of our markets began to slow in the second half of 2011, particularly in our European markets where the recovery remains sluggish due to the unwinding of fiscal stimuli, lingering high unemployment, concerns over European sovereign debt issues and the tightening of government budgets. We continue to see slowing growth rates in our markets. Further disruptions in Europe or in other economies could affect our revenues or liquidity. Continued inflationary pressures in emerging market countries could cause their governments to further tighten credit and raise interest rates, resulting in slowing economic growth. If the global economy, or some of our significant markets, were to undergo a sustained slowdown or another significant downturn, depending upon the length, duration and severity of such a slowdown or downturn, our results of operations, financial condition and cash flow would likely be materially adversely affected.

Our backlog is subject to customer cancellation.

Many of the orders that comprise our backlog may be canceled by our customers without penalty. Our customers, particularly for our foil technology products, often cancel orders when business is weak and inventories are excessive, a situation that we have experienced during periods of economic slowdown. Therefore, we cannot be certain that the amount of our backlog accurately forecasts the level of orders that will ultimately be delivered. Our results of operations could be adversely impacted if customers cancel a material portion of orders in our backlog.

The complexity of our sophisticated weighing and control systems may require costly corrections if design flaws are found.

Our weighing and control systems combine sophisticated electronic hardware and computer software. We believe that the sophistication of our systems contributes to their competitive advantage over similar products offered by other system integrators. We go to substantial lengths to assure that our system products are free of design flaws when they are delivered to our customers for installation and testing. However, due to the systems complexity, design flaws may occur and require correction. If the requisite corrections are substantial or difficult to implement due to the systems complexity, we may not be able to recover the costs of correction and retesting, with the result that our profit margins on these systems could be substantially reduced, or even negated by losses, and our results of operations could be materially and adversely affected.

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

Although most materials incorporated in our products are available from a number of sources, certain materials are available only from a relatively limited number of suppliers. The materials that are only available from a limited number of sources include certain molding compounds, metal package suppliers, low resistance switches, polyimide film and laminating adhesives. We generally maintain a supply of strategic raw materials for continuity and risk management. Our customers would need significant advance notification to qualify alternative materials, if we had to use them. Alternative suppliers are available worldwide for most of our raw materials, but significant time (between 3 to 12 months) would be required to qualify new suppliers and establish efficient production scheduling.

Certain metals used in the manufacture of our products are traded on active markets, and can be subject to significant price volatility.

Our results of operations may be materially and adversely affected if we have difficulty obtaining these raw materials, if the quality of available raw materials deteriorates, if there are significant price changes for these raw materials, or if compliance with the laws and regulations described below proves costly and time-consuming. For periods in which the prices of these raw materials are rising, we may be unable to pass on the increased cost to our customers, which would result in decreased margins for the products in which they are used. For periods in which the prices are declining, we may be required to write down our inventory carrying cost of these raw materials, since we record our inventory at the lower of cost or market. Depending on the extent of the difference between market price and our carrying cost, this write-down could have a material adverse effect on our net earnings. We also may need to record losses for adverse purchase commitments for these materials in periods of declining prices.

There is new U.S. legislation to improve the transparency and accountability concerning the supply of minerals coming from the conflict zones of the Democratic Republic of Congo and adjoining countries. This new legislation requires that, starting in the calendar year beginning January 1, 2013, a reporting company that determines that certain metals, dubbed conflict minerals by the SEC (which include tantalum, gold, tin and tungsten), are necessary to the functionality or production of a product it manufactures or contracts to have manufactured must file a specialized disclosure form with the SEC. The implementation of these requirements could increase our legal compliance costs and affect the sourcing and availability of minerals used in the manufacture of our products. Also, since our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all metals used in our products.

Our product sales may be adversely affected by changes in product classification levels under various qualification and specification standards.

Certain of our products must be qualified or approved under various military and aerospace specifications and other standards.

We have qualified certain of our foil resistor products under various military specifications approved and monitored by the DLA, and under certain European military specifications, and various aerospace standards approved by NASA and the ESA.

Certain of our force sensor products are approved by the NTEP and OIML. Our on-board weighing systems must meet approved standards to make them legal-for-trade.

Qualification and specification levels are based in part upon product failure rate. We must continuously perform tests on our products, and for products that are qualified, the results of these tests must be reported to the qualifying organization. If a product fails to meet the requirements for the applicable classification level, the product s classification may be suspended or reduced to a lower level. During the time that the classification is suspended or reduced to a lower level, net revenues and earnings attributable to that product may be adversely affected.

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

The competitive environment of our business requires us to attract and retain highly qualified personnel to develop technological innovations and bring them to market on a timely basis. Our complex operations also require us to attract and retain highly qualified administrative personnel in functions such as legal, tax, accounting, financial reporting, and treasury. The market for personnel with such qualifications is highly competitive. We have not entered into employment agreements with many of our key personnel.

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

Failure to maintain effective internal controls could adversely affect our ability to meet our reporting requirements.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports, and to effectively prevent fraud. Internal controls over financial reporting may not prevent or detect misstatements because of inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our operating results could be harmed. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our acquisition of new businesses, such as our recent acquisition of KELK, requires the integration and harmonization of the acquired business internal controls with our existing internal controls in order to properly account for the acquired business assets and operations. If we fail to maintain the effectiveness of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations, and there could be a material adverse effect on our stock price.

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

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

Our two credit facilities and two term loans subject us to financial and operating restrictions.

In each of October 2010 and November 2011, we entered into separate three-year revolving credit agreements with banks which we expect to use for working capital and other purposes. In January 2013, we amended our agreement from 2010 and added two 5-year terms loans in connection with our acquisition of the KELK business. Each credit agreement subjects us to certain restrictions. These restrictions may affect, and in some cases significantly limit or prohibit, among other things, our ability to:

- borrow additional funds;
- pay dividends or make other distributions;
- make investments, including capital expenditures;
- complete acquisitions;
- engage in transactions with affiliates or subsidiaries; or
- create liens on our assets.

Each credit agreement also requires us to maintain certain financial ratios. If we fail to comply with the covenant restrictions contained in either credit agreement, that failure could result in defaults under both credit agreements that would accelerate the maturity of the indebtedness under the agreements.

Unexpected events, such as a natural disaster, could disrupt our operations and adversely affect our results of operations.

We have manufacturing and other facilities in countries around the world. Unexpected events, including fires or explosions at facilities; natural disasters, such as hurricanes and earthquakes; war or terrorist activities; unplanned outages; supply disruptions; and failures of equipment or systems at any of our facilities could adversely affect our results of operation. If adverse conditions were to arise with respect to any of our facilities as a result of a natural disaster or other unexpected event, they may result in customer disruption, physical damage to one or more key operating facilities, the temporary closure of one or more key operating facilities, the temporary disruptions of information systems, and/or an adverse effect on our results of operations.

Changes in our tax rate or exposure to additional income tax liabilities could affect our profitability. In addition, audits by tax authorities could result in additional tax payments for prior periods.

We are subject to income taxes in the U.S. and in various foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate can be affected by changes in the mix of earnings in countries with differing statutory tax rates (including as a result of business acquisitions and dispositions), changes in the valuation of deferred tax assets and liabilities, accruals related to contingent tax liabilities, the results of audits and examinations of previously filed tax returns and changes in tax laws. Any of these factors may adversely affect our tax rate and decrease our profitability. The amount of income taxes we pay is subject to ongoing audits by U.S. federal, state and local tax authorities and by foreign tax authorities. If these audits result in assessments different from our reserves, our future results may include unfavorable adjustments to our tax liabilities.

The Obama administration has announced proposals to tax profits of U.S. companies earned abroad. While it is not possible to predict whether any such proposals will be implemented and how they will ultimately impact us, they may adversely impact our results of operations.

Risks relating to our operations outside the United States

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

We have substantial operations in Israel. The low tax rates in Israel applicable to earnings of our operations in that country, compared to the rates in the United States, have the general effect of increasing our net earnings. Any significant increase in the Israeli tax rates could have an adverse impact on our results of operations. There can also be no assurance that in the future the Israeli government will continue to offer new tax incentive programs applicable to us or that, if it does, such programs will provide the same level of benefits we have historically received or that we will continue to be eligible to benefit from them.

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

Our strategy is aimed at achieving significant production cost savings through the transfer and expansion of manufacturing operations to and in countries with lower production costs or other incentives, such as Costa Rica, India, Israel, the People s Republic of China, and the Republic of China (Taiwan). During this process, we may experience under-utilization of certain plants and factories in higher-labor-cost regions and capacity constraints in plants and factories located in lower-labor-cost regions. Also, we may experience delays in the expected transition from a higher cost location to a lower cost one that result in greater than expected use of the higher cost facility. This transitional utilization may result initially in production inefficiencies and higher costs. These costs include those associated with compensation in connection with workforce reductions and plant closings in the higher-labor-cost regions, and start-up expenses, manufacturing and construction delays, and increased depreciation costs in connection with the initiation or expansion of production in lower-labor-cost regions. In addition, as we implement transfers of certain of our operations we may experience strikes or other types of labor unrest as a result of layoffs or termination of our employees in higher-labor-cost countries.

In connection with the transfer of manufacturing operations to lower-labor-cost countries, we are also increasing the level of automation in our plants for the purpose of seeking to optimize our capital and labor resources in production, inventory management, quality control, and warehousing. Although we have substantial experience with automation in several of our plants in higher-labor-cost countries, there are risks in seeking to increase the level of automation in plants which previously did not use a significant amount of automation. These risks include the possibility of inefficiencies and higher operating costs in the transition from manual to automated operations, and if the transition extends longer than anticipated, we could suffer product yield inefficiencies, contributing to higher product costs and increasing the time it will take for us to achieve a return on our investment in the capital equipment involved in the automation process. Furthermore, any layoffs or termination of our employees as a result of increased automation may lead to strikes or other types of labor unrest.

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

Some of our products are produced in Israel, India, China, and other countries which are particularly subject to risks of political, economic, and military instability. This instability could result in wars, riots, nationalization of industry, currency fluctuations, and labor unrest. These conditions could have an adverse impact on our ability to operate in these regions and, depending on the extent and severity of these conditions, could materially and adversely affect our overall financial condition and operating results.

Our business has been in operation in Israel for over 40 years. We have never experienced any material interruption in our operations attributable to these factors, in spite of several Middle East crises, including wars. However, we might be adversely affected if events were to occur in the Middle East that interfered with our operations in Israel.

We are subject to foreign currency exchange rate risks which may impact our results of operations.

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

Our significant foreign subsidiaries are located in the United Kingdom, Germany, Israel, Japan, and India. We finance our operations in Europe and certain locations in Asia in local currencies. Our operations in Israel and certain locations in Asia are largely financed in U.S. dollars, but these subsidiaries also have significant transactions in local currencies. Our exposure to foreign currency risk is mitigated to the extent that the costs incurred and the revenues earned in a particular currency offset one another. Our exposure to foreign currency risk is more pronounced in situations where, for example, production labor costs are predominantly paid in local currencies while the sales revenue for those products is denominated in U.S. dollars. This situation in particular applies to our operations in Israel, China, and Taiwan.

Beginning in 2011, the Company entered into collar options to sell U.S. dollars and purchase Israeli shekels to mitigate exposure to fluctuations in U.S. dollar and Israeli shekel exchange rates. The derivative contracts concluded in July of 2012 and the Company has not entered into any new derivative contracts as of December 31, 2012. A net gain of $0.1 million on these contracts was recorded for the year ended December 31, 2012. As of December 31, 2012, we did not have in place any other arrangements to mitigate or hedge against exposures relating to fluctuations in foreign currency exchange rate.

A change in the mix of the currencies in which we transact our business could have a material effect on results of operations. Furthermore, the timing of cash receipts and disbursements could have a material effect on our results of operations, particularly if there are significant changes in exchange rates in a short period of time.

Risks Stemming from the Spin-off

Background

On October 27, 2009, Vishay Intertechnology announced its intention to spin-off its precision measurement and foil resistor businesses into an independent, publicly-traded company to be named Vishay Precision Group, Inc. On July 6, 2010, Vishay Intertechnology completed the spin-off through a tax-free stock dividend to Vishay Intertechnology s stockholders.

Prior to the spin-off, we entered into a series of agreements that, among other things, allocated assets, liabilities and obligations between Vishay Intertechnology and us and required cooperation between the parties to fulfill the terms of the spin-off and specified the conditions to the spin-off.

For a more detailed description of these agreements see our information statement filed with the SEC on June 22, 2010 as Exhibit 99.1 to our registration statement on Form 10.

We have a short operating history as an independent company upon which you can evaluate our performance and, accordingly, our prospects must be considered in light of the risks that any newly independent company encounters.

Prior to July 6, 2010, we operated as part of Vishay Intertechnology. Accordingly, we have a short experience operating as an independent company and performing various corporate functions, including human resources, tax administration, legal (including compliance with the Sarbanes-Oxley Act of 2002 and with the periodic reporting obligations of the Securities Exchange Act of 1934), treasury administration, investor relations, insurance, information technology and telecommunications services, as well as the accounting for many items such as equity compensation, income taxes, derivatives, intangible assets and pensions. Our prospects must be considered in light of the risks, expenses and difficulties encountered by companies in the early stages of independent business operations, all of which could have a material adverse effect on our business.

Some of our historical financial information is not necessarily indicative of our results as a separate company and therefore may not be reliable as an indicator of our future financial results.

Some of our historical financial statements were created, in part, from Vishay Intertechnology s financial statements using our historical results of operations and historical bases of assets and liabilities as part of Vishay Intertechnology. Accordingly, some of the historical financial information we have included in this document is not necessarily indicative of what our financial position, results of operations and cash flows would have been if we had been a separate, stand-alone entity during the periods presented.

The historical financial information is not necessarily indicative of what our results of operations, financial position and cash flows will be in the future. While the historical results of operations for when we were part of Vishay Intertechnology include all costs of Vishay Intertechnology s precision measurement and foil resistor businesses, those historical costs and expenses do not include all of the costs that would have been or will be incurred by us as an independent company. In addition, we have not made adjustments to that historical financial information to reflect changes, many of which are significant, that have, or will, occur in our cost structure, financing and operations as a result of the spin-off. These changes include potentially increased costs associated with reduced access to resources, economies of scale, and purchasing power.

While our combined and consolidated financial statements are calculated on a separate tax return basis, our effective income tax rate as reflected in our historical financial statements also may not be indicative of our future effective income tax rate. Among other things, the rate may be materially impacted by changes in the mix of our earnings from the various jurisdictions in which we operate, the tax characteristics of our earnings, the timing and amount of earnings of foreign subsidiaries that we repatriate to the United States, which may increase our tax expense and taxes paid, the timing and results of any reviews of our income tax filing positions in the jurisdictions in which we transact business, and the expiration of the tax incentives for manufacturing operations in Israel.

We use the mark Vishay *under license from Vishay Intertechnology, which could result in product and market confusion.*

We use the mark *Vishay* as part of our name and in connection with many of our products. Our use of the *Vishay* mark is governed by an agreement between us and Vishay Intertechnology, giving us a perpetual, royalty-free, worldwide license for the use of the mark. We believe that it is important that we continue the use of the *Vishay* name in order to benefit from the reputation of the *Visha*y brand, which was first used in connection with our foil resistors and strain gages when Vishay Intertechnology was founded 50 years ago.

There are risks associated with our use of the *Vishay* mark, however, both for us and for Vishay Intertechnology. Because both we and Vishay Intertechnology use the *Vishay* mark, confusion could arise in the market regarding the products offered by the two companies, and there could be a misplaced perception of our continuing to be associated with Vishay Intertechnology. Also, any negative publicity associated with one of the two companies in the future could adversely affect the public image of the other. Finally, Vishay Intertechnology will have the right to terminate the license agreement in certain extreme circumstances if we are in material and repeated breach of the terms of the agreement, which would likely have an adverse effect on us and our business.

Risks Relating to Our Common Stock

Our smaller size may affect the trading market for our shares.

We are considered a microcap company and our trading volume is likely to fluctuate. Also, it is possible that there will be less market and institutional interest in our shares, and that we will not attract substantial coverage in the analyst community. As a result, the trading market for our shares may be less liquid, making it more difficult for investors to dispose of their shares at favorable prices, and investors may have less independent information and analysis available to them concerning our company.

Our stock price could become more volatile and investments could lose value.

The market price of our common stock and the number of shares traded each day has experienced significant fluctuations and may continue to fluctuate significantly. The market price for our common stock may be affected by a number of factors, including, but not limited to:

- shortfalls in our expected net revenue, earnings or key performance metrics;
- changes in recommendations or estimates by securities analysts;
- the announcement of new products by us or our competitors;
- quarterly variations in our or our competitors results of operations;
- a change in our dividend or stock repurchase activities;
- developments in our industry or changes in the market for technology stocks;
- changes in rules or regulations applicable to our business; and
- other factors, including economic instability and changes in political or market conditions.

A significant drop in our stock price could expose us to costly and time consuming litigation, which could result in substantial costs and divert management s attention and resources, resulting in an adverse effect on our business.

The holders of Class B convertible common stock have effective voting control of our company.

We have two classes of common stock: common stock and Class B convertible common stock. The holders of common stock are entitled to one vote for each share held, while the holders of Class B convertible common stock are entitled to 10 votes for each share held. The ownership of Class B convertible common stock is highly concentrated, and holders of Class B convertible common stock effectively can cause the election of directors and approve other actions as stockholders without the approval of our other stockholders. Mrs. Ruta Zandman, the wife of the late founder of our technology, Dr. Felix Zandman, controls the voting of, solely or on a shared basis with Marc Zandman (our Chairman) and Ziv Shoshani (our Chief Executive Officer), approximately 76.8% of our Class B convertible common stock, representing 34.8% of the total voting power of our capital stock.

Your percentage ownership of our common stock may be diluted in the future.

Your percentage ownership of our common stock may be diluted in the future because of equity awards that we expect will be granted to our directors, officers and employees, as well as due to certain convertible or exchangeable debt instruments, or stock purchase warrants. The Vishay Precision Group, Inc. 2010 Stock Incentive Program provides for the grant of equity-based awards, including restricted stock, restricted stock units, stock options, and other equity-based awards to our directors, officers and other employees, advisors and consultants.

Certain provisions of our certificate of incorporation and bylaws may reduce the likelihood of any unsolicited acquisition proposal or potential change of control that you might consider favorable.

Our bylaws contain provisions that could be considered anti-takeover provisions because they make it harder for a third party to acquire us without the consent of our incumbent board of directors. Under these by-law provisions:

- stockholders may not change the size of the board of directors or, except in limited circumstances, fill vacancies on the board of directors;
- stockholders may not call special meetings of stockholders;
- stockholders must comply with advance notice provisions for nominating directors or presenting other proposals at stockholder meetings; and
- our Board of Directors, may without stockholder approval, issue preferred shares and determine their rights and terms, including voting rights, or adopt a stockholder rights plan.

These provisions could have the effect of discouraging an unsolicited acquisition proposal or delaying, deferring or preventing a change of control transaction that might involve a premium price or otherwise be considered favorable by our stockholders.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our business has approximately 17 principal locations. Our facilities include owned locations and locations leased from third parties, including Vishay Intertechnology. The principal locations, along with available space including administrative offices, are listed below:

	Reporting segment	Approx. Available Space (square feet)
Owned Locations		
Oragadam, India (a)	Force Sensors	129,000
Wendell, North Carolina USA	Foil Technology Products	125,000
Holon, Israel	Foil Technology Products	97,000
Bradford, United Kingdom	Weighing and Control Systems	86,000
Carmiel, Israel	Force Sensors	80,000
Akita, Japan (b)	Foil Technology Products	46,000
Chartres, France	Force Sensors	11,000
Basingstoke, United Kingdom	Force Sensors/Foil Technology Products	11,000
Alajuela, Costa Rica	Foil Technology Products	7,000
Third-Party Leased Locations		
Toronto, Canada (c)	Weighing and Control Systems	91,000
Tianjin, People s Republic of China	Force Sensors	67,000
Rancho Cucamonga, California USA	Force Sensors/Weighing and Control Systems	54,000
Beijing, People s Republic of China	Force Sensors	40,000
Taipei, Republic of China (Taiwan)	Force Sensors/Weighing and Control Systems	13,000
Degerfors, Sweden	Weighing and Control Systems	8,000
Teltow, Germany	Foil Technology Products	5,000
Locations Leased from Vishay Intertechnology (shared location)		
Be er Sheva, Israel	Foil Technology Products	14,000

(a) The Oragadam building is owned and the land is held under a 99 year lease.

(b) A facility on the campus is leased to Vishay Intertechnology. Approximate available space reported above excludes the area leased.

(c) Effective January 31, 2013, the Company acquired a leased manufacturing facility in Toronto, Canada, in connection with the acquisition of the KELK business.

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

Our corporate headquarters are located at 3 Great Valley Parkway, Suite 150, Malvern, PA 19355.

Item 3. LEGAL PROCEEDINGS

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is listed on the New York Stock Exchange under the symbol VPG. The following table sets forth the high and low sales prices for our common stock as reported on the New York Stock Exchange composite tape for the indicated fiscal quarters. The Board of Directors may only declare dividends or other distributions with respect to the common stock or the Class B convertible common stock if it grants such dividends or distributions in the same amount per share with respect to the other class of stock. Stock dividends or distributions on any class of stock are payable only in shares of stock of that class. Shares of either common stock or Class B convertible common stock cannot be split, divided, or combined unless the other is also split, divided, or combined equally. Holders of record of our common stock totaled approximately 1,000 at March 12, 2013.

	2012		2011	
	High	Low	High	Low
Fourth Quarter	$ 14.14	$ 11.68	$ 16.49	$ 12.86
Third Quarter	$ 14.25	$ 12.99	$ 18.10	$ 12.92
Second Quarter	$ 15.04	$ 13.32	$ 19.28	$ 14.56
First Quarter	$ 17.50	$ 14.21	$ 20.25	$ 15.56

We have two classes of common stock: common stock and Class B convertible common stock. The holders of common stock are entitled to one vote for each share held, while the holders of Class B convertible common stock are entitled to 10 votes for each share held. At March 12, 2013 we had outstanding 1,025,176 shares of Class B convertible common stock, par value $.10 per share. Currently, the holders of VPG s Class B convertible common stock hold approximately 45% of the voting power of our Company. Mrs. Ruta Zandman, the wife of the late founder of our technology, Dr. Felix Zandman, controls the voting of, solely or on a shared basis with Marc Zandman (our Chairman) and Ziv Shoshani (our Chief Executive Officer), approximately 76.8% of our Class B convertible common stock, representing 34.8% of the total voting power of our capital stock.

Stock Performance Graph

The graph and table below compare the cumulative total stockholder return on the Company s common stock over a thirty month period (from its initial listing on July 6, 2010), with the returns on the Russell 2000 Stock Index, and a peer group of companies selected by our management. The peer group is made up of seven publicly held manufacturers of sensors, sensor-based equipment, and sensor-based systems. Management believes that the product offerings of the companies contained in the peer group are more similar to our product offerings than those of the companies contained in any published industry index. The return of each peer issuer has been weighted according to the respective issuer s stock market capitalization. The graph and table assume that $100 had been invested at July 6, 2010 and that all dividends were reinvested. The graph and table are not necessarily indicative of future investment performance.

		7/6/2010	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011
Vishay Precision Group, Inc.	Cum $	100.00	133.42	161.03	133.93	144.27	112.65
Russell 2000 Index	Cum $	100.00	111.29	129.38	139.65	137.41	107.37
Peer Group *	Cum $	100.00	120.26	158.77	179.54	188.28	141.80

		12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012
Vishay Precision Group, Inc.	Cum $	136.58	126.75	119.23	119.49	112.99
Russell 2000 Index	Cum $	123.98	139.38	134.55	136.03	137.43
Peer Group *	Cum $	148.98	192.33	158.87	178.49	199.19

*The management selected peer group includes: Measurement Specialties, MTS Systems, Kyowa Electronic Instruments, Mettler Toledo, Spectris, Sensata Technologies, CTS Corp.

Item 6. SELECTED FINANCIAL DATA

The following table presents our selected historical financial data. The statements of operations data for each of the five years ended December 31, 2012 and the balance sheet data as of December 31, 2012, 2011, 2010, 2009, and 2008 have been derived from our audited combined and consolidated financial statements.

Our historical financial data for all periods prior to July 6, 2010 are not necessarily indicative of our future performance or what our financial position and results of operations would have been if we had operated as a separate, stand-alone entity during those periods shown. The data should be read in conjunction with our historical financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this document.

(in thousands, except per share amounts)	**As of and for the years ended December 31,**				
	2012	**2011**	**2010**	**2009**	**2008 (c)**
Statement of Operations Data:					
Net revenues	**$ 217,616**	$ 238,107	$ 207,524	$ 171,991	$ 241,700
Costs of products sold	**142,584**	154,996	130,396	119,286	161,804
Gross profit	**75,032**	83,111	77,128	52,705	79,896
Selling, general, and administrative expenses	**63,666**	66,847	57,297	43,356	51,714
Acquisition costs	**275**	-	-	-	-
Restructuring and severance costs	**-**	-	-	2,048	6,349
Impairment of goodwill	**-**	-	-	-	93,465
Operating income (loss)	**11,091**	16,264	19,831	7,301	(71,632)
Other income (expense):					
Interest expense	**(266)**	(276)	(390)	(1,237)	(1,574)
Other	**(301)**	(878)	(928)	714	4,780
Other income (expense) - net	**(567)**	(1,154)	(1,318)	(523)	3,206
Income (loss) before taxes	**10,524**	15,110	18,513	6,778	(68,426)
Income tax (benefit) expense	**(1,240)**	4,316	6,770	5,057	5,689
Net earnings (loss)	**11,764**	10,794	11,743	1,721	(74,115)
Less: net earnings attributable to noncontrolling interests	**73**	23	37	17	15
Net earnings (loss) attributable to VPG stockholders /parent (a)	**$ 11,691**	$ 10,771	$ 11,706	$ 1,704	$ (74,130)
Earnings (loss) per share data:					
Basic	**$ 0.87**	$ 0.81	$ 0.88	$ 0.13	$ (5.56)
Diluted	**$ 0.84**	$ 0.78	$ 0.85	$ 0.13	$ (5.56)
Wt. avg. shares outstanding basic (b)	**13,367**	13,343	13,332	13,332	13,332
Wt. avg. shares outstanding diluted (b)	**13,889**	13,834	13,787	13,332	13,332
Balance Sheet Data:					
Cash and cash equivalents	**$ 93,881**	$ 80,828	$ 82,245	$ 63,192	$ 70,381
Total assets	**263,173**	256,605	248,713	209,779	254,863
Net payable to affiliates	**-**	-	-	18,495	47,436
Long-term debt, less current portion	**11,154**	11,463	11,692	1,551	1,761
Working capital	**153,754**	140,978	136,429	102,489	145,363
Total VPG stockholders'/parent equity	**196,649**	184,785	176,785	148,090	150,158

(a) For the periods from July 6, 2010 to December 31, 2012, net earnings are attributable to VPG stockholders and for the periods prior to July 6, 2010, net earnings (loss) are attributable to Vishay Intertechnology.

(b) For periods prior to July 6, 2010, the operations comprising VPG's business were wholly owned by various subsidiaries of Vishay Intertechnology. As of the date of the spin-off, VPG issued 13.3 million shares of capital stock. This share amount is being utilized for the calculation of basic and diluted earnings per common share for periods presented prior to July 6, 2010, as no common stock of the Company existed prior to July 6, 2010.

(c) Includes the results of Vishay Transducers India Limited from June 30, 2008 and of Powertron GmbH from July 23, 2008, the respective dates of acquisition.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

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

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

Until July 6, 2010, our business was part of Vishay Intertechnology, and our assets and liabilities consisted of those that Vishay Intertechnology attributed to its precision measurement and foil resistor businesses. Since the spin-off on July 6, 2010, we have operated as an independent, publicly-traded company, and Vishay Intertechnology does not retain any ownership interest in us.

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

In January 2013, we completed the acquisition of substantially all of the assets of the George Kelk Corporation. KELK engineers, designs and manufactures highly accurate optical and electronic roll force measurement and control equipment primarily used in metals rolling mills and mining applications throughout the world. This acquisition expands our geographic and end market strength in the metals measurement processing market and will add new products to our Weighing and Control Systems reporting segment.

Net revenues for the year ended December 31, 2012 were $217.6 million versus $238.1 million for the prior year. Net earnings attributable to VPG stockholders for the year ended December 31, 2012 were $11.7 million, or $0.84 per diluted share, versus $10.8 million, or $0.78 per diluted share, for the prior year.

Financial Metrics

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

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

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

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

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

The quarter-to-quarter trends in these financial metrics can also be an important indicator of the likely direction of our business. The following table shows net revenues, gross profit margin, the end-of-period backlog, the book-to-bill ratio, and the inventory turnover for our business as a whole during the five quarters beginning with the fourth quarter of 2011 and through the fourth quarter of 2012 *(dollars in thousands)*:

	4th Quarter 2011	**1st Quarter 2012**	**2nd Quarter 2012**	**3rd Quarter 2012**	**4th Quarter 2012**
Net revenues	$ 56,412	$ 55,844	$ 55,332	$ 55,430	$ 51,010
Gross profit margin	33.4%	33.8%	35.9%	33.8%	34.4%
End-of-period backlog	$ 42,400	$ 43,300	$ 43,600	$ 40,100	$ 38,900
Book-to-bill ratio	0.95	1.01	1.02	0.92	0.96
Inventory turnover	3.02	2.99	2.85	2.96	2.73

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

Revenues were flat from the fourth quarter of 2011 through the 3rd quarter of 2012. Revenues decreased in the fourth quarter of 2012 mainly due to volume decreases across all product lines and regions. Comparing the fourth quarter of 2012 to the third quarter of 2012, the regional breakdown showed a reduction in revenues of $1.7 million in the Americas, $1.5 million in Asia and $1.2 million in Europe. There was also a slight decline in orders, primarily in the Americas and Asia, in the fourth quarter of 2012 versus the third quarter of 2012.

Gross profit margins remained fairly consistent during the fourth quarter of 2011 and the first quarter of 2012. The second quarter of 2012 showed an improvement in gross margins in all of the reporting segments with the most significant increase coming from the Force Sensors segment. This was primarily due to volume increases, product mix and the realization of efficiencies from the movement of production to our new facility in India. In the third quarter of 2012, gross margin dropped to 33.8% with the most significant decrease coming from the Foil Technology Products segment. In response to economic conditions, temporary plant shutdowns in two of our subsidiaries led to lower volume and labor inefficiencies. In the fourth quarter of 2012, gross profit margin improved to 34.4%, mainly from the Foil Technology Products and Force Sensors segments. We began to show improvements in operating efficiencies in the Foil Technology Products segment and we continue to show improvements in operating efficiencies in the Force Sensors segment, mainly resulting from our new facility in India.

Financial Metrics by Segment

The following table shows net revenues, gross profit margin, end-of-period backlog, book-to-bill ratio, and inventory turnover broken out by reporting segment for the five quarters beginning with the fourth quarter of 2011, through the fourth quarter of 2012 *(dollars in thousands)*:

	4th Quarter 2011	**1st Quarter 2012**	**2nd Quarter 2012**	**3rd Quarter 2012**	**4th Quarter 2012**
Foil Technology Products					
Net revenues	$ 26,561	$ 27,801	$ 26,590	$ 26,307	$ 24,509
Gross profit margin	40.5%	40.7%	42.6%	38.9%	40.6%
End-of-period backlog	$ 22,500	$ 21,500	$ 22,400	$ 20,800	$ 19,600
Book-to-bill ratio	0.95	0.97	1.04	0.93	0.96
Inventory turnover	3.54	3.68	3.36	3.52	3.23
Force Sensors					
Net revenues	$ 17,216	$ 16,603	$ 17,180	$ 16,502	$ 15,502
Gross profit margin	18.1%	17.9%	21.5%	20.2%	22.5%
End-of-period backlog	$ 13,200	$ 14,600	$ 13,600	$ 13,300	$ 12,500
Book-to-bill ratio	0.96	1.07	0.96	0.97	0.94
Inventory turnover	2.24	2.18	2.18	2.15	1.99
Weighing and Control Systems					
Net revenues	$ 12,635	$ 11,440	$ 11,562	$ 12,621	$ 10,999
Gross profit margin	39.2%	40.0%	41.7%	40.9%	37.6%
End-of-period backlog	$ 6,700	$ 7,200	$ 7,600	$ 6,000	$ 6,800
Book-to-bill ratio	0.93	1.03	1.05	0.85	0.99
Inventory turnover	4.59	4.17	3.93	4.37	4.00

Optimize Core Competence

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

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

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

Acquisition Strategy

To date, our growth and acquisition strategy largely focused on vertical product integration, using our foil strain gages in our force sensor products and incorporating our sensors and electronic measurement instrumentation and software into our weighing and control systems. Precision foil resistor products are also used in many of the control systems that we manufacture.

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

Research and Development

Research and development will continue to play a key role in our efforts to introduce innovative products to generate new sales and to improve profitability. We expect to continue to expand our position as a leading supplier of precision foil technology products. We believe our R&D efforts should provide us with a variety of opportunities to leverage technology, products, and our manufacturing base in order to ultimately improve our financial performance. The amount charged to expense for research and development aggregated $6.4 million, $6.8 million, and $6.0 million for the years ended December 31, 2012, 2011, and 2010, respectively.

Cost Management

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

Our acquisition strategy may involve a focus on reducing selling, general, and administrative expenses and achieving significant production cost savings at acquired companies. The plant closure and employee termination costs subsequent to acquisitions are also integral to our cost reduction programs.

Production transfers, facility consolidations, and other long-term cost-cutting measures require us to initially incur significant severance and other exit costs. We have begun to realize the benefits of our restructuring through lower labor costs and other operating expenses, and expect to continue reaping these benefits in future periods. However, these programs to improve our profitability also involve certain risks which could materially impact our future operating results, as further detailed in Item 1A Risk Factors of this annual report on Form 10-K. We did not initiate any new restructuring programs during the years ended December 31, 2012, 2011, or 2010 and thus did not record any restructuring expenses during those years.

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

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

Israeli Government Incentives

We have substantial manufacturing operations in Israel, where we benefit from the government s tax incentive programs. These benefits take the form of reduced tax rates that are lower than those in the United States.

Foreign Currency

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

Foreign Subsidiaries which use the Local Currency as the Functional Currency

We finance our operations in Europe and certain locations in Asia using local currencies, and accordingly, these subsidiaries utilize the local currency as their functional currency. For those subsidiaries where the local currency is the functional currency, assets and liabilities in the consolidated balance sheets have been translated at the rate of exchange as of the balance sheet date. Translation adjustments do not impact the results of operations and are reported as a separate component of equity.

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

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

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

For the year ended December 31, 2012, exchange rate impacts negatively impacted net revenues by $5.3 million and positively impacted costs of products sold and selling, general, and administrative expenses by $5.8 million when compared to the prior year. For the year ended December 31, 2011, exchange rate impacts positively impacted net revenues by $6.7 million and negatively impacted costs of products sold and selling, general, and administrative expenses by $7.8 million when compared to the prior year.

Off-Balance Sheet Arrangements

As of December 31, 2012 and 2011, we do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our significant accounting policies are summarized in Note 2 to our combined and consolidated financial statements. We identify here a number of policies that entail significant judgments or estimates by management.

Revenue Recognition

We recognize revenue on product sales during the period when the sales process is complete. This generally occurs when products are shipped to the customer in accordance with terms of an agreement of sale, title and risk of loss have been transferred, collectability is reasonably assured, and pricing is fixed or determinable. For a small percentage of sales where title and risk of loss pass at the point of delivery, we recognize revenue upon delivery to the customer, assuming all other criteria for revenue recognition are met.

Some of our larger systems products have post-shipment obligations, such as customer acceptance, training, or installation. In such circumstances, revenue is deferred until the obligation has been completed, unless such obligation is deemed inconsequential and perfunctory.

Given the specialized nature of our products, we generally do not allow product returns.

Accounts Receivable

Our receivables represent a significant portion of our current assets. We are required to estimate the collectability of our receivables and to establish allowances for the amount of receivables that will prove uncollectible. We base these allowances on our historical collection experience, the length of time our receivables are outstanding, the financial circumstances of individual customers, and general business and economic conditions.

Derivative Contracts

Beginning in 2011, the Company entered into collar options to sell U.S. dollars and purchase Israeli shekels to mitigate exposure to fluctuations in U.S. dollar and Israeli shekel exchange rates. This exposure results from our Israeli operations utilizing the U.S. dollar as their functional currency. We do not utilize derivatives or other financial instruments for trading or other speculative purposes. We record all derivatives in the balance sheet as either assets or liabilities at fair value. We have not designated any derivatives as hedges for accounting purposes, and as such the changes in the fair value of derivatives are recognized in current period earnings as a component of other income (expense). In determining fair value, we consider both the counterparty credit risk and our own credit worthiness. To determine our own credit risk we estimate our own credit rating by benchmarking the price of outstanding debt to publicly-available comparable data from rating agencies. Using the estimated rating, our credit risk was quantified by reference to publicly traded debt with a corresponding rating. The term of these contracts ended in July of 2012, and the Company has not entered into any new contracts as of December 31, 2012.

Inventories

We value our inventories at the lower of cost or market, with cost determined under the first-in, first-out method, and market based upon net realizable value. The valuation of our inventories requires our management to make market estimates. For work in process goods, we are required to estimate the cost to completion of the products and the prices at which we will be able to sell the products. For finished goods, we must assess the prices at which we believe the inventory can be sold. Inventories are also adjusted for estimated obsolescence and written down to net realizable value based upon estimates of future demand, technology developments and market conditions.

Estimates of Restructuring and Severance Costs and Purchase-Related Restructuring Costs

To maintain our cost competitiveness, we are shifting manufacturing emphasis to more advanced automation in higher-labor-cost regions and relocating production to regions with skilled workforces and relatively lower labor costs. We also incur similar costs when we acquire companies.

These production transfers, facility consolidations, and other long-term cost-cutting measures require us to initially incur significant severance and other exit costs. We anticipate that we will realize the benefits of our restructuring efforts through lower labor costs and other operating expenses in future periods.

Restructuring and severance costs are expensed during the period in which we become obligated to pay those costs and all other requirements for accrual are met. Because transfers of manufacturing operations sometimes occur incrementally over a period, the expense initially recorded is often based on estimates.

Because these costs are recorded based on estimates, our actual expenditures for restructuring activities may differ from the initially recorded costs. If this happens, we will need to adjust our estimates in future periods, either by recording additional expenses in future periods, if our initial estimates were too low, or by reversing part of the charges that we recorded initially, if our initial estimates were too high.

Impairment of Long-Lived Assets

We assess the impairment of our long-lived assets other than goodwill, including property and equipment and identifiable intangible assets subject to amortization, whenever events or changes in circumstances indicate the carrying value may not be recoverable. Factors we consider important, which could trigger an impairment review, include significant changes in the manner of our use of the asset, changes in historical or projected operating performance, and significant negative economic trends.

Pension and Other Postretirement Benefits

Accounting for defined benefit pension and other postretirement plans involves numerous assumptions and estimates. The discount rate at which obligations could effectively be settled and the expected long-term rate of return on plan assets are two critical assumptions in measuring the cost and benefit obligations of our pension and other postretirement benefit plans. Other important assumptions include the anticipated rate of future increases in compensation levels, estimated mortality, and for postretirement medical plans, increases or trends in health care costs. Management reviews these assumptions at least annually. We use independent actuaries to assist us in formulating assumptions and making estimates. These assumptions are updated periodically to reflect the actual experience and expectations on a plan-specific basis, as appropriate.

Our defined benefit plans are concentrated in the United States and the United Kingdom. Plans in these countries comprise approximately 85% of our retirement obligations at December 31, 2012. We utilize published long-term high-quality bond indices to determine the discount rate at the measurement date. We utilize bond yields at various maturity dates to reflect the timing of expected future benefit payments. We believe the discount rates selected are the rates at which these obligations could effectively be settled.

For benefit plans which are funded, we establish strategic asset allocation percentage targets and appropriate benchmarks for significant asset classes with the aim of achieving a prudent balance between return and risk. We set the expected long-term rate of return based on the expected long-term average rates of return to be achieved by the underlying investment portfolios. In establishing this rate, we consider historical and expected returns for the asset classes in which the plans are invested, advice from pension consultants and investment advisors, and current economic and capital market conditions. The expected return on plan assets is incorporated into the computation of pension expense. The difference between this expected return and the actual return on plan assets is deferred.

We believe that the current assumptions used to estimate plan obligations and annual expense are appropriate in the current economic environment. However, if economic conditions change, we may be inclined to change some of our assumptions, and the resulting change could have a material impact on the combined and consolidated statements of operations and on the consolidated balance sheet.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect our best assessment of estimated current and future taxes to be paid. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense for financial statement purposes.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In assessing the realizability of deferred tax assets, we consider future taxable income by tax jurisdiction and tax planning strategies. We record a valuation allowance to reduce our deferred tax assets to equal an amount that is more likely than not to be realized. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and incorporate assumptions about the amount of future state, federal and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income (loss).

Changes in tax laws and tax rates could also affect recorded deferred tax assets and liabilities in the future. We are not aware of any current changes that would have a material effect on our results of operations, cash flows or financial position.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. Accounting Standards Codification Topic 740, Income Taxes (ASC 740) states that a benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. We first record unrecognized tax benefits as liabilities in accordance with ASC 740 and then adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available at the time of establishing the liability. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

As of December 31, 2012, the Company anticipates that it is reasonably possible that approximately $0.1 million to $0.3 million of its current unrecognized tax benefits may be reversed within the next twelve months of the reporting date as a result of a lapse of the statute of limitation in certain jurisdictions.

We consider the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our specific plans for reinvestment of those subsidiary earnings. Withholding taxes of approximately $12.0 million would be payable upon remittance of all previously unremitted earnings at December 31, 2012. Should we decide to repatriate the foreign earnings, we would need to adjust our income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside the United States.

On July 6, 2010, we entered into a Tax Matters Agreement with Vishay Intertechnology under which Vishay Intertechnology will be responsible for all income taxes for periods before the date of the spin-off other than those taxes for which a liability was recorded on our books at the time of the spin-off. Vishay Intertechnology is also principally responsible for managing any income tax audits by the various tax jurisdictions for pre-spin-off periods.

We have joint and several liability with Vishay Intertechnology to multiple tax authorities. However, under the terms of the Tax Matters Agreement, Vishay Intertechnology has agreed to assume this liability and any similar liability for U.S. federal, state or local and foreign income taxes that are determined on a separate company, consolidated, combined, unitary or similar basis for each taxable period in which VPG was a part of Vishay Intertechnology s affiliated group prior to July 6, 2010.

Results of Operations Years Ended December 31, 2012, 2011, and 2010

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

	Years ended December 31,		
	2012	**2011**	**2010**
Costs of products sold	**65.5%**	65.1%	62.8%
Gross profit	**34.5%**	34.9%	37.2%
Selling, general, and administrative expenses	**29.3%**	28.1%	27.6%
Operating income	**5.1%**	6.8%	9.6%
Income before taxes	**4.8%**	6.3%	8.9%
Net earnings	**5.4%**	4.5%	5.7%
Net earnings attributable to VPG stockholders/parent	**5.4%**	4.5%	5.6%
Effective tax rate	**-11.8%**	28.6%	36.6%

Net Revenues

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

	Years ended December 31,		
	2012	**2011**	**2010**
Net revenues	**$ 217,616**	$ 238,107	$ 207,524
Change versus prior year	**$ (20,491)**	$ 30,583	
Percentage change versus prior year	**-8.6%**	14.7%	

Changes in net revenues were attributable to the following:

	2012 vs. 2011	**2011 vs. 2010**
Change attributable to:		
Change in volume	**-6.9%**	12.0%
Change in average selling prices	**0.4%**	-0.7%
Foreign currency effects	**-2.2%**	3.3%
Other	**0.1%**	0.1%
Net change	**-8.6%**	14.7%

During the year ended December 31, 2012, the decrease in revenues when compared to the prior year was the result of volume decreases from all three reporting segments, reflecting the declining demand in Europe as well as some slowdown in demand in the Americas and Asia. The fluctuation in foreign currencies also negatively impacted revenues. The overall reduction in revenues in 2012 as compared to 2011 is a reflection of the soft global industrial segment environment.

During the year ended December 31, 2011, the increase in revenues when compared to the prior year was the result of volume increases from all three reporting segments. The fluctuation in foreign currencies also aided the improvement in revenues.

Gross Profit and Margins

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

	Years ended December 31,		
	2012	**2011**	**2010**
Gross margin percentage	**34.5%**	34.9%	37.2%

For the year ended December 31, 2012, the decrease in gross margin percentage when compared to the prior year was due to lower volume, higher fixed manufacturing costs such as wages, utilities, and IT costs, and depreciation.

For the year ended December 31, 2011, the decrease in gross margin percentage when compared to the prior year was due to increases in variable costs, such as material usage, wage increases and freight and duty costs, product mix, as well as higher fixed manufacturing costs, depreciation and inventory obsolescence.

Segments

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

Foil Technology Products

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

	Years ended December 31,		
	2012	**2011**	**2010**
Net revenues	**$ 105,207**	$ 112,176	$ 101,557
Change versus prior year	**$ (6,969)**	$ 10,619	
Percentage change versus prior year	**-6.2%**	10.5%	

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

	2012 vs. 2011	**2011 vs. 2010**
Change attributable to:		
Change in volume	**-4.8%**	6.8%
Change in average selling prices	**0.6%**	0.2%
Foreign currency effects	**-2.1%**	3.2%
Other	**0.1%**	0.3%
Net change	**-6.2%**	10.5%

For the year ended December 31, 2012, revenues declined when compared to the prior year mainly due to volume decreases in our sales of foil resistor products. Exchange rates also negatively impacted revenues.

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

	Years ended December 31,		
	2012	**2011**	**2010**
Gross margin percentage	**40.7%**	43.5%	47.7%

For the year ended December 31, 2012, the decrease in gross margin percentage when compared to the prior year was due to increases in variable costs, such as material usage, wages, and labor inefficiencies, as well as higher fixed manufacturing costs, and depreciation. Included in these higher fixed costs are costs associated with the new pilot line in this segment.

For the year ended December 31, 2011, the decrease in gross margin percentage when compared to the prior year, was due to increases in variable costs, such as material usage, wages, repairs and maintenance and supplies, as well as higher fixed manufacturing costs, depreciation and inventory obsolescence. Included in these higher variable and fixed costs were the costs associated with the start-up of a new pilot line in this segment.

Force Sensors

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

	Years ended December 31,		
	2012	**2011**	**2010**
Net revenues	**$ 65,787**	$ 71,533	$ 60,095
Change versus prior year	**$ (5,746)**	$ 11,438	
Percentage change versus prior year	**-8.0%**	19.0%	

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

	2012 vs. 2011	**2011 vs. 2010**
Change attributable to:		
Change in volume	**-6.4%**	20.5%
Change in average selling prices	**0.4%**	-2.6%
Foreign currency effects	**-2.0%**	1.8%
Other	**0.0%**	-0.7%
Net change	**-8.0%**	19.0%

For the year ended December 31, 2012, revenues declined when compared to the prior year mainly due to volume decreases in our sales of load cell products. The overall economic decline in the industrial segment environment across all regions has impacted this segment. Exchange rates also negatively impacted revenues.

For the year ended December 31, 2011, revenues increased when compared to the prior year mainly due to volume increases in our sales of load cell products.

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

	Years ended December 31,		
	2012	**2011**	**2010**
Gross margin percentage	**20.5%**	19.1%	20.6%

For the year ended December 31, 2012, the increase in the gross margin percentage when compared to the prior year is mainly due to an improved product mix and the realization of cost savings from the movement of production to our new facility in India.

For the year ended December 31, 2011, the decrease in gross margin percentage when compared to the prior year was due to product mix, higher variable costs and manufacturing fixed costs, including wages and material usage, and start-up costs at our new India facility.

Weighing and Control Systems

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

	Years ended December 31,		
	2012	**2011**	**2010**
Net revenues	**$ 46,622**	$ 54,398	$ 45,872
Change versus prior year	**$ (7,776)**	$ 8,526	
Percentage change versus prior year	**-14.3%**	18.6%	

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

	2012 vs. 2011	**2011 vs. 2010**
Change attributable to:		
Change in volume	**-12.0%**	12.8%
Change in average selling prices	**0.2%**	0.0%
Foreign currency effects	**-2.8%**	5.2%
Other	**0.3%**	0.6%
Net change	**-14.3**	