

Vishay Precision Group, Inc.  
Form 10-Q  
August 10, 2011

---

---

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2011

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

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

Commission File Number 1-34679

VISHAY PRECISION GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of Incorporation)

27-0986328  
(I.R.S. Employer Identification Number)

3 Great Valley Parkway, Suite 150  
Malvern, PA 19355  
(Address of Principal Executive Offices)

484-321-5300  
(Registrant's Area Code and Telephone Number)

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

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

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

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

Accelerated filer   
Smaller reporting company

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

As of August 10, 2011 the registrant had 12,320,618 shares of its common stock and 1,025,176 shares of its Class B common stock outstanding.

---



VISHAY PRECISION GROUP, INC.

FORM 10-Q  
JULY 2, 2011

CONTENTS

	Page Number
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements</b>	
Consolidated Condensed Balance Sheets – July 2, 2011 (Unaudited) and December 31, 2010	3
Combined and Consolidated Condensed Statements of Operations (Unaudited) – Fiscal Quarters Ended July 2, 2011 and July 3, 2010	5
Combined and Consolidated Condensed Statements of Operations (Unaudited) – Six Fiscal Months Ended July 2, 2011 and July 3, 2010	6
Combined and Consolidated Condensed Statements of Cash Flows (Unaudited) – Six Fiscal Months Ended July 2, 2011 and July 3, 2010	7
Consolidated Condensed Statement of Equity (Unaudited)	8
Notes to Combined and Consolidated Condensed Financial Statements (Unaudited)	9
<b>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>26</b>
<b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b>	<b>39</b>
<b>Item 4. Controls and Procedures</b>	<b>39</b>
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1. Legal Proceedings</b>	<b>40</b>
<b>Item 1A. Risk Factors</b>	<b>40</b>
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	<b>40</b>
<b>Item 3. Defaults Upon Senior Securities</b>	<b>40</b>

Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

Item 4.	[Removed and Reserved]	40
Item 5.	Other Information	40
Item 6.	Exhibits	41
SIGNATURES		42

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## VISHAY PRECISION GROUP, INC.

## Consolidated Condensed Balance Sheets

(In thousands)

	July 2, 2011 (Unaudited)	December 31, 2010
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 79,943	\$ 82,245
Accounts receivable, net	38,710	33,988
<b>Inventories:</b>		
Raw materials	15,252	14,361
Work in process	15,447	15,360
Finished goods	18,477	18,616
Total inventories	49,176	48,337
Deferred income taxes	4,154	4,022
Prepaid expenses and other current assets	8,657	5,540
<b>Total current assets</b>	<b>180,640</b>	<b>174,132</b>
<b>Property and equipment, at cost</b>		
Land	2,679	1,991
Buildings and improvements	41,634	40,036
Machinery and equipment	70,870	68,566
Software	4,458	4,274
Projects in process	2,919	2,282
Accumulated depreciation	(74,325)	(70,402)
Net property and equipment	48,235	46,747
Intangible assets, net	13,257	14,500
Other assets	13,490	13,334
<b>Total assets</b>	<b>\$ 255,622</b>	<b>\$ 248,713</b>

Continues on following page

Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

VISHAY PRECISION GROUP, INC.

Consolidated Condensed Balance Sheets (continued)

(In thousands)

	July 2, 2011 (Unaudited)	December 31, 2010
<b>Liabilities and equity</b>		
<b>Current liabilities:</b>		
Notes payable to banks	\$ 735	\$ 85
Trade accounts payable	12,522	11,537
Payroll and related expenses	11,155	12,554
Other accrued expenses	7,434	8,680
Income taxes	2,601	4,847
Current portion of long-term debt	178	-
<b>Total current liabilities</b>	<b>34,625</b>	<b>37,703</b>
Long-term debt	11,495	11,692
Deferred income taxes	4,210	4,212
Other liabilities	7,780	7,468
Accrued pension and other postretirement costs	10,778	10,708
<b>Total liabilities</b>	<b>68,888</b>	<b>71,783</b>
<b>Commitments and contingencies</b>		
<b>Equity:</b>		
Common stock	1,231	1,231
Class B convertible common stock	103	103
Capital in excess of par value	180,585	180,142
Retained earnings	12,170	5,894
Accumulated other comprehensive income (loss)	(7,598)	(10,585)
<b>Total Vishay Precision Group, Inc. stockholders' equity</b>	<b>186,491</b>	<b>176,785</b>
Noncontrolling interests	243	145
<b>Total equity</b>	<b>186,734</b>	<b>176,930</b>
<b>Total liabilities and equity</b>	<b>\$ 255,622</b>	<b>\$ 248,713</b>

See accompanying notes.

Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

VISHAY PRECISION GROUP, INC.

Combined and Consolidated Condensed Statements of Operations

(Unaudited - In thousands, except per share amounts)

	Fiscal quarter ended	
	July 2, 2011	July 3, 2010
Net revenues	\$ 62,133	\$ 52,914
Costs of products sold	40,043	32,932
Gross profit	22,090	19,982
Selling, general, and administrative expenses	17,083	13,831
Operating income	5,007	6,151
Other income (expense):		
Interest expense	(77)	(109)
Other	(146)	44
Other income (expense) - net	(223)	(65)
Income before taxes	4,784	6,086
Income tax expense	1,759	2,019
Net earnings	3,025	4,067
Less: net earnings attributable to noncontrolling interests	42	32
Net earnings attributable to VPG stockholders/parent	\$ 2,983	\$ 4,035
Basic earnings per share attributable to VPG stockholders/parent	\$ 0.22	\$ 0.30
Diluted earnings per share attributable to VPG stockholders/parent	\$ 0.22	\$ 0.30
Weighted average shares outstanding - basic	13,341	13,332
Weighted average shares outstanding - diluted	13,820	13,332

See accompanying notes.

Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

VISHAY PRECISION GROUP, INC.

Combined and Consolidated Condensed Statements of Operations

(Unaudited - In thousands, except per share amounts)

	Six fiscal months ended	
	July 2, 2011	July 3, 2010
Net revenues	\$ 121,658	\$ 101,089
Costs of products sold	78,558	64,059
Gross profit	43,100	37,030
Selling, general, and administrative expenses	33,416	27,038
Operating income	9,684	9,992
Other income (expense):		
Interest expense	(157)	(316)
Other	134	40
Other income (expense) - net	(23)	(276)
Income before taxes	9,661	9,716
Income tax expense	3,272	3,846
Net earnings	6,389	5,870
Less: net earnings attributable to noncontrolling interests	113	59
Net earnings attributable to VPG stockholders/parent	\$ 6,276	\$ 5,811
Basic earnings per share attributable to VPG stockholders/parent	\$ 0.47	\$ 0.44
Diluted earnings per share attributable to VPG stockholders/parent	\$ 0.46	\$ 0.44
Weighted average shares outstanding - basic	13,340	13,332
Weighted average shares outstanding - diluted	13,815	13,332

See accompanying notes.



Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

VISHAY PRECISION GROUP, INC.

Combined and Consolidated Condensed Statements of Cash Flows

(Unaudited - In thousands)

	Six fiscal months ended	
	July 2, 2011	July 3, 2010
<b>Operating activities</b>		
Net earnings	\$ 6,389	\$ 5,870
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	5,612	5,989
Loss (gain) on disposal of property and equipment	28	(7)
Share based compensation expense	476	72
Inventory write-offs for obsolescence	965	676
Other	(3,181)	3,175
<b>Net changes in operating assets and liabilities:</b>		
Accounts receivable	(3,698)	(9,822)
Inventories	(1,256)	(1,659)
Prepaid expenses and other current assets	(3,089)	(1,089)
Trade accounts payable	766	1,488
Other current liabilities	(2,743)	4,698
Net cash provided by operating activities	269	9,391
<b>Investing activities</b>		
Capital expenditures	(5,098)	(3,884)
Proceeds from sale of property and equipment	134	128
Net cash used in investing activities	(4,964)	(3,756)
<b>Financing activities</b>		
Principal payments on long-term debt and capital leases	(45)	(129)
Net changes in short-term borrowings	652	521
Distributions to noncontrolling interests	(15)	(16)
Transactions with Vishay Intertechnology	-	4,695
Net cash provided by financing activities	592	5,071
Effect of exchange rate changes on cash and cash equivalents	1,801	(2,919)
(Decrease) increase in cash and cash equivalents	(2,302)	7,787
Cash and cash equivalents at beginning of period	82,245	63,192
Cash and cash equivalents at end of period	\$ 79,943	\$ 70,979

See accompanying notes.

Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

VISHAY PRECISION GROUP, INC.

Consolidated Condensed Statement of Equity

(Unaudited - In thousands except share amounts)

	Common Stock	Class B Convertible Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total VPG Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2010	\$ 1,231	\$ 103	\$ 180,142	\$ 5,894	\$ (10,585)	\$ 176,785	\$ 145	\$ 176,930
Net earnings	-	-	-	6,276	-	6,276	113	6,389
Foreign currency translation adjustment	-	-	-	-	2,989	2,989	-	2,989
Pension and other postretirement actuarial items (net of tax)	-	-	-	-	(2)	(2)	-	(2)
Comprehensive income						9,263	113	9,376
Share based compensation expense	-	-	301	-	-	301	-	301
Restricted stock issuances (9,067 shares)	-	-	142	-	-	142	-	142
Conversion from Class B to common stock (20 shares)	-	-	-	-	-	-	-	-
Distribution to noncontrolling interests	-	-	-	-	-	-	(15)	(15)
Balance at July 2, 2011	\$ 1,231	\$ 103	\$ 180,585	\$ 12,170	\$ (7,598)	\$ 186,491	\$ 243	\$ 186,734

See accompanying notes.

Vishay Precision Group, Inc.  
Notes to Combined and Consolidated Condensed Financial Statements (Unaudited)

Note 1 – Basis of Presentation

Background

On July 6, 2010, Vishay Intertechnology, Inc. (“Vishay Intertechnology”) completed the spin-off of Vishay Precision Group, Inc. (“VPG” or the “Company”) through a tax-free stock dividend to Vishay Intertechnology’s stockholders. See Note 2 to our combined and consolidated condensed financial statements.

VPG is an internationally recognized designer, manufacturer and marketer of sensors based on resistive foil technology and sensor-based systems specializing in the growing markets of stress, force, weight, pressure, and current measurements. The Company provides vertically integrated products and solutions that are all based upon its proprietary foil technology. These products are marketed under a variety of brand names that are characterized as having a very high level of precision and quality. The global operations enable the Company to produce a wide variety of products in strategically effective geographical locations that also optimize its resources for specific technologies, sensors, assemblies and systems. The Company reports in two segments: the Foil Technology Products segment and the Weighing Modules and Control Systems segment. The Foil Technology Products segment is comprised of ultra-high precision foil resistors and foil strain gages. This segment’s products are sold to third-party customers and are utilized in the manufacture of the vertically integrated modules and systems that comprise the Weighing Modules and Control Systems segment.

Carve-out Basis of Presentation

Until July 6, 2010, VPG was part of Vishay Intertechnology and its assets and liabilities consisted of those that Vishay Intertechnology attributed to its precision measurement and foil resistor businesses.

Prior to July 6, 2010, the VPG business was conducted by various direct and indirect subsidiaries of Vishay Intertechnology. The accompanying combined and consolidated condensed financial statements for periods prior to July 6, 2010 have been derived from Vishay Intertechnology’s historical accounting records and are presented on a carve-out basis.

Before effecting the spin-off, all assets and liabilities associated with the precision measurement and foil resistor businesses of Vishay Intertechnology were contributed to VPG.

For periods prior to July 6, 2010, the combined and consolidated condensed statements of operations include all revenues and expenses directly attributable to VPG, including costs for facilities, functions, and services used by VPG at shared sites and costs for certain functions and services performed by centralized Vishay Intertechnology organizations outside of the defined scope of VPG and directly charged to VPG based on usage. The results of operations also include allocations of (i) costs for administrative functions and services performed on behalf of VPG by centralized staff groups within Vishay Intertechnology, (ii) Vishay Intertechnology general corporate expenses, (iii) pension and other postemployment benefit costs, (iv) interest expense, and (v) current and deferred income taxes. See Note 2 for a description of the allocation methodologies utilized.

All of the allocations and estimates in the accompanying combined and consolidated condensed financial statements for periods prior to July 6, 2010, are based on assumptions that VPG and Vishay Intertechnology management believe are reasonable, and reasonably approximate the historical costs that VPG would have incurred as a separate entity for the same level of service or support. However, these allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if VPG had been operated as a separate entity.

Note 1 – Basis of Presentation (continued)

Carve-out Basis of Presentation (continued)

Since the spin-off, VPG is incurring incremental costs both to replace Vishay Intertechnology support and to function as an independent, publicly-traded company.

Actual costs incurred had VPG been a stand-alone company for periods prior to July 6, 2010, would have depended on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees, and strategic decisions made in areas such as information technology and infrastructure. Following the spin-off, VPG is performing these functions using its own resources or purchasing these services.

Interim Financial Statements

These unaudited combined and consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements and therefore do not include all information and footnotes necessary for the presentation of financial position, results of operations, and cash flows required by accounting principles generally accepted in the United States for complete financial statements. The information furnished reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair summary of the financial position, results of operations, and cash flows for the interim periods presented. These financial statements should be read in conjunction with the combined and consolidated financial statements and notes thereto as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010, included in VPG’s Annual Report Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on March 24, 2011. The results of operations for the fiscal quarter and six fiscal months ended July 2, 2011 are not necessarily indicative of the results to be expected for the full year.

VPG reports interim financial information for 13-week periods beginning on a Sunday and ending on a Saturday, except for the first quarter, which always begins on January 1, and the fourth quarter, which always ends on December 31. The four fiscal quarters in 2011 and 2010 end on the following dates:

	2011	2010
Quarter 1	April 2nd	April 3rd
Quarter 2	July 2nd	July 3rd
Quarter 3	October 1st	October 2nd
Quarter 4	December 31st	December 31st

Earnings Per Share

Until 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 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. For periods prior to July 6, 2010, the same number of shares is being used for diluted earnings per common share as for basic earnings per common share as no common stock of the Company existed prior to July 6, 2010 and no dilutive securities of the Company were outstanding for any prior period.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2011-5, Comprehensive Income (Topic 220), Presentation of Comprehensive Income. The Accounting Standards Update (“ASU”) requires that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive statements. The ASU is effective for the Company for interim and annual periods beginning after January 1, 2012. The adoption of the ASU is not expected to have any effect on the Company’s financial position, results of operations, or liquidity.

#### Note 2 – Related Party Transactions

Through July 6, 2010, VPG had significant agreements, transactions, and relationships with Vishay Intertechnology operations outside the defined scope of the VPG business. While these transactions are not necessarily indicative of the terms VPG would have achieved had it been a separate entity, management believes they are reasonable.

Historically, VPG used the corporate services of Vishay Intertechnology to fulfill a variety of functions including treasury, tax, legal, internal audit, human resources, and risk management. Subsequent to the spin-off, VPG is an independent, publicly traded company, and is incurring additional costs associated with being an independent, publicly traded company. These additional costs are not reflected in VPG's historical combined and consolidated condensed financial statements for periods prior to July 6, 2010.

#### Sales Organizations

Prior to the spin-off, a portion of VPG's Foil Technology products were sold by the Vishay Intertechnology worldwide sales organization, which operates through regionally-based legal entities. The third-party sales of these products are presented in the combined and consolidated condensed financial statements as if they were made by VPG, although legal entities outside of the defined scope of VPG actually made these sales. Third-party sales made through the Vishay Intertechnology worldwide sales organization totaled \$3.0 million and \$6.6 million for the fiscal quarter and six fiscal months ended July 3, 2010, respectively.

The selling entities received selling commissions on these sales. Commission rates were set at the beginning of each year based on budgeted selling expenses expected to be incurred by the Vishay Intertechnology sales organization. Commission expense charged to VPG by the Vishay Intertechnology worldwide sales organization was \$0.1 million and \$0.3 million for the fiscal quarter and six fiscal months ended July 3, 2010, respectively.

The net cash generated by these transactions was retained by the Vishay Intertechnology selling entity and is presented in the combined and consolidated condensed statements of cash flows as a financing activity in the caption "Transactions with Vishay Intertechnology."

These sales activities were transitioned to VPG's dedicated sales forces effective June 1, 2010.

#### Shared Facilities

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

Subsequent to the spin-off, VPG and Vishay Intertechnology continue to share certain manufacturing locations. VPG owns one location in Israel and one location in Japan, at which it initially leased space to Vishay Intertechnology. Vishay Intertechnology vacated the Israel facility during the first quarter of 2011 but continues to lease space from VPG in Japan. Vishay Intertechnology owns one location in Israel and one location in the United States, at which it leases space to VPG.

#### Administrative Service Sharing Agreements

Through July 6, 2010, the combined and consolidated condensed financial statements include transactions with other Vishay Intertechnology operations involving administrative services (including expenses primarily related to personnel, insurance, logistics, other overhead functions, corporate IT support, and network communications support) that were provided to VPG by Vishay Intertechnology operations outside the defined scope of VPG. Amounts charged to the Company for these services were \$0.7 million and \$1.1 million for the fiscal quarter and six fiscal months ended July 3, 2010, respectively. VPG assumed the responsibility for these functions, either internally or by purchasing these services from third-party vendors, following the spin-off.

Note 2 – Related Party Transactions (continued)

Allocated Corporate Overhead Costs

Through July 6, 2010, the costs of certain services, including charges for services such as accounting matters for all SEC filings, investor relations, tax services, cash management, legal services, and risk management on a global basis, that were provided by the Vishay Intertechnology corporate office to VPG have been reflected in the combined and consolidated condensed financial statements as selling general and administrative expenses in the accompanying combined and consolidated condensed statements of operations.

The total amount of allocated costs was \$0.5 million and \$1.1 million for the fiscal quarter and six fiscal months ended July 3, 2010, respectively. These costs were allocated to VPG on the ratio of revenues attributed to the VPG business to total revenues and represent management’s reasonable allocation of the costs incurred. However, these amounts are not representative of the costs necessary for VPG to operate as an independent, publicly traded company.

Interest Charges

As previously described, through July 6, 2010, VPG had significant agreements, transactions, and relationships with Vishay Intertechnology operations outside the defined scope of the VPG business. Through July 6, 2010, the combined and consolidated condensed financial statements include charges for interest based on the prevailing interest rate of Vishay Intertechnology’s revolving credit facility, or if greater, an interest rate required by local tax authorities. Interest expense on the net amount payable to affiliates was \$0.1 million and \$0.3 million during the fiscal quarter and six fiscal months ended July 3, 2010. Of these amounts, \$0.1 million and \$0.2 million during the fiscal quarter and six fiscal months ended July 3, 2010, respectively, was not historically charged by Vishay Intertechnology to VPG. The remaining interest expense was charged to VPG and paid in accordance with local statutory requirements.

Commitments, Contingencies, and Concentrations

Relationships with Vishay Intertechnology After Spin-Off

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

Transition Services Agreement

Under the terms of a transition services agreement dated July 6, 2010, Vishay Intertechnology agreed to provide to VPG, for a fee, specified support services for a period of up to 18 months after the spin-off. Under this agreement, Vishay Intertechnology continues to provide to VPG certain information technology support services for the Company’s foil resistor business. The cost of the services under the transition services agreement is estimated to be less than \$0.5 million in the aggregate. As of July 2, 2011, \$0.4 million has been paid to Vishay Intertechnology for transition services.

Lease Agreements

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

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

Remainder of 2011	\$ 76
2012	152
2013	152
2014	152
2015	76
Thereafter	-



## Note 2 – Related Party Transactions (continued)

## Commitments, Contingencies, and Concentrations (continued)

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

Remainder of 2011	\$ 19
2012	39
2013	39
2014	39
2015	19
Thereafter	-

## Supply Agreements

After the spin-off, VPG and Vishay Intertechnology each will require certain products manufactured by the other for manufacture and sale of its respective products. VPG and Vishay Intertechnology have entered into multiple supply agreements pursuant to which one party will be obligated to supply to the other certain products described in the supply agreements, up to a maximum aggregate quantity for each product, at pricing set forth in the supply agreements. The term of each supply agreement is perpetual unless sooner terminated. Either party may terminate the supply agreement at any time upon written notice to the other party at least one year prior to the requested date of termination. The parties will negotiate in good faith as to the pricing for each product on an annual basis taking into account ascertainable market inputs. The aggregate purchase price of products purchased from Vishay Intertechnology is not considered material.

## Note 3 – Income Taxes

The effective tax rate for the fiscal quarter ended July 2, 2011 was 36.8% versus 33.2 % for the fiscal quarter ended July 3, 2010. The higher effective tax rate in the current quarter compared to prior year quarter is a reflection of the unfavorable impact from the mix of earnings and the inability to record a tax benefit on certain loss making entities. The effective tax rate for the six fiscal months ended July 2, 2011 was 33.9% versus 39.6% for the six fiscal months ended July 3, 2010. The lower effective tax rate in the current year period compared to prior year period is a reflection of the favorable impact from the mix of earnings in low tax jurisdictions versus that of higher tax jurisdictions, slightly offset by the inability to record a deferred tax benefit due to losses in certain foreign jurisdictions.

Income taxes for VPG for the fiscal quarter and six fiscal months ended July 2, 2011 and July 3, 2010, as presented in these combined and consolidated condensed financial statements, are calculated on a separate tax return basis. VPG's operations related to the six fiscal months ended July 3, 2010 were included in Vishay Intertechnology's U.S. federal and certain state tax returns and United Kingdom "group relief" available to entities under common control has been claimed. Vishay Intertechnology's global tax model was developed based on its entire portfolio of businesses. Accordingly, tax results as presented for VPG for the six fiscal months ended July 3, 2010, in these financial statements are not necessarily indicative of future performance and do not necessarily reflect the results that VPG would have generated as an independent, publicly traded company for the period presented.

Prior to spin-off, certain dedicated entities had taxes payable to the local taxing authorities, but VPG did not maintain taxes payable to/from parent in those jurisdictions where the taxable incomes are combined or offset. Accordingly, VPG was deemed to settle the annual current tax balances immediately with the legal tax-paying entities in the respective jurisdictions. These settlements were reflected as changes in parent net investment.



## Note 3 – Income Taxes (continued)

The provision for income taxes consists of provisions for federal, state, and foreign income taxes. The effective tax rates for the periods ended July 2, 2011 and July 3, 2010 reflect VPG's expected tax rate on reported income before income tax and tax adjustments. VPG operates in an international environment with significant operations in various locations outside the United States. Accordingly, the consolidated income tax rate is a composite rate reflecting VPG's earnings and the applicable tax rates in the various locations in which VPG operates.

The Company and its subsidiaries are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. VPG establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when VPG believes that certain positions might be challenged despite its belief that the tax return positions are supportable. VPG adjusts these reserves in light of changing facts and circumstances and the provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. The Company has joint and several liability with Vishay Intertechnology to multiple tax authorities up through the spin-off date. 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. Penalties and tax-related interest expense are reported as a component of income tax expense. The Company anticipates \$0.6 million to \$0.8 million of unrecognized tax benefits to be reversed within the next twelve months of the reporting date due to the expiration of statute of limitations in certain jurisdictions. This reversal will not have an impact to tax expense as the unrecognized tax benefits are a part of the indemnification from Vishay Intertechnology.

## Note 4 – Long-Term Debt

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

	July 2, 2011	December 31, 2010
Credit facility - revolving debt	\$ -	\$ -
Exchangeable unsecured notes, due 2102	9,958	9,958
Other debt	1,715	1,734
	11,673	11,692
Less current portion	178	-
	\$ 11,495	\$ 11,692

Note 4 – Long-Term Deb(continued)

Credit Facility

On October 14, 2010, the Company entered into a Credit Agreement (“Credit Agreement”) among the Company, the lenders, RBS Citizens, National Association as joint book-runner and JPMorgan Chase Bank, National Association as agent for such lenders (“the Agent”), pursuant to which the lenders have made available to the Company a multi-currency, secured credit facility. The credit facility consists of a secured revolving facility (“Revolving Facility”) in an aggregate principal amount of \$25.0 million with sublimits of (i) \$5.25 million which can be used for letters of credit, and (ii) up to \$5.0 million which can be used for loans outstanding for up to 5 business days (“Swing Loans”). The Revolving Facility terminates on October 14, 2013.

Interest payable on the Revolving Facility is based upon the Agent’s prime rate, the Federal Funds Rate, or LIBOR (“Base Rate”). Depending upon the Company’s leverage ratio or the type of advance, an interest rate margin ranging from 0.00% to 2.75% per annum is added to the applicable Base Rate to determine the interest payable on the Revolving Facility. The Company paid a one-time fee on the commitment and is required to pay a quarterly fee of 0.30% per annum to 0.50% per annum on the unused portion of the Revolving Facility which is determined based on the Company’s leverage ratio each quarter. Additional customary fees apply with respect to letters of credit.

The obligations under the Revolving Facility are secured by pledges of stock in certain domestic and foreign subsidiaries, as well as guarantees by all of the Company’s domestic subsidiaries. The obligations of the Company and the guarantors under the Revolving Facility are secured by substantially all the assets (excluding real estate) of the Company and such guarantors. The Credit Agreement restricts the Company from paying cash dividends and requires the Company to comply with other customary covenants, representations and warranties, including the maintenance of specific financial ratios. There is a provision in the Credit Agreement that if the Company is in default of more than \$1.5 million in debt elsewhere, which is not cured, the credit facility could default.

The financial maintenance covenants include (a) a leverage ratio of not more than 2.5 to 1.0; and (b) a fixed charges coverage ratio of not less than 2.5 to 1.0. The Company was in compliance with all covenants at July 2, 2011 and December 31, 2010. The leverage ratio and fixed charges ratio were 0.4 to 1.0 and 40.2 to 1.0, respectively at July 2, 2011. The leverage ratio and fixed charges ratio were 0.4 to 1.0 and 30.0 to 1.0, respectively at December 31, 2010. The Company expects to continue to be in compliance with these covenants based on current projections. If the Company is not in compliance with all of the required financial covenants, the credit facility could be terminated by the lenders, and all amounts outstanding pursuant to the credit facility could become immediately payable.

The Credit Agreement is structured to permit the Company to enter into a second secured revolving credit facility of up to a maximum principal amount not to exceed \$15.0 million (or the equivalent thereof in Israeli shekels to be determined at the time the facility is entered into), on terms and conditions reasonably satisfactory to the Agent and secured separately by assets of the Company’s subsidiaries based primarily in Israel.

Note 4 – Long-Term Deb(continued)

Exchangeable Unsecured Notes, due 2102

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

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

The notes are subject to a put and call agreement under which the holders may at any time put the notes to the Company in exchange for 441,176 shares of the Company's common stock in the aggregate, and the Company may call the notes in exchange for cash or for shares of its common stock at any time after January 1, 2018. The put/call rate of the VPG notes is \$22.57 per share of common stock.

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

Other Debt

Other debt consists of debt held by VPG's Japanese subsidiary. The subsidiary had a revision in the payment terms on this debt, which is now payable monthly over the next 10 years beginning in April of 2011.

Note 5 – Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes the following components (in thousands):

	Fiscal quarter ended		Six fiscal months ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net earnings	\$ 3,025	\$ 4,067	\$ 6,389	\$ 5,870
Other comprehensive income (loss):				
Foreign currency translation adjustment	430	(1,826)	2,989	(4,945)
Pension and other postretirement adjustments (net of tax)	18	54	(2)	110
Total other comprehensive income (loss)	448	(1,772)	2,987	(4,835)
Comprehensive income	3,473	2,295	9,376	1,035
Less: Comprehensive income attributable to noncontrolling interests	42	32	113	59
Comprehensive income attributable to VPG stockholders	\$ 3,431	\$ 2,263	\$ 9,263	\$ 976

Note 6 – Pension and Other Postretirement Benefits

Defined Benefit Plans

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

Prior to July 6, 2010, certain employees of VPG in the United States and the United Kingdom have participated in defined benefit pension and other postretirement plans sponsored by Vishay Intertechnology. The annual cost of the Vishay Intertechnology defined benefit plans was allocated to all of the participating businesses based upon a specific actuarial computation, and accordingly, is reflected in the accompanying combined and consolidated condensed statements of operations.

VPG assumed most of the obligations for employees in the United States and the United Kingdom that were employed by VPG after the spin-off, and accordingly, those obligations are included in VPG's consolidated condensed balance sheets. An allocation of plan assets is also reflected in the disclosures below for the periods prior to July 6, 2010. Plan assets were transferred to VPG as of the spin-off and invested in money market funds and company-owned life insurance policies.

Vishay Intertechnology's principal qualified U.S. pension plan, the Vishay Retirement Plan ("VRP"), was frozen effective January 1, 2009 and participants no longer accrue benefits. Given the frozen nature of the VRP, participants who became employees of VPG at the spin-off became terminated, vested participants of the VRP as of the spin-off date and Vishay Intertechnology retained the related pension obligations.

Employees who participated in the Vishay Nonqualified Retirement Plan who became employees of VPG at the spin-off transferred into the newly created Vishay Precision Group Nonqualified Retirement Plan. The Vishay Nonqualified Retirement Plan was frozen effective January 1, 2009. Accordingly, the Vishay Precision Group Nonqualified Retirement Plan is also frozen and participants do not continue to accrue benefits.

The Vishay Precision Group Nonqualified Retirement Plan, like all nonqualified plans, is considered to be unfunded. VPG maintains a nonqualified trust, referred to as a "rabbi" trust, to fund benefits under this plan. Rabbi trust assets are subject to creditor claims under certain conditions and are not the property of employees. Therefore, they are accounted for as other noncurrent assets. Effective July 6, 2010, Vishay Intertechnology deposited an allocation of assets into a newly created rabbi trust for VPG. The consolidated condensed balance sheets include these rabbi trust assets of \$1.4 million at July 2, 2011 and \$1.4 million at December 31, 2010, which approximate the pension liability at those dates.

Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

Note 6 – Pension and Other Postretirement Benefits (continued)

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

	Fiscal quarter ended July 2, 2011		Fiscal quarter ended July 3, 2010	
	Pension Plans	OPEB Plans	Pension Plans	OPEB Plans
Net service cost	\$ 125	\$ 10	\$ 61	\$ 9
Interest cost	227	35	197	34
Expected return on plan assets	(154)	-	(124)	-
Amortization of actuarial losses	-	12	2	8
Net periodic benefit cost	\$ 198	\$ 57	\$ 136	\$ 51

	Six fiscal months ended July 2, 2011		Six fiscal months ended July 3, 2010	
	Pension Plans	OPEB Plans	Pension Plans	OPEB Plans
Net service cost	\$ 248	\$ 20	\$ 124	\$ 18
Interest cost	450	70	402	68
Expected return on plan assets	(306)	-	(253)	-
Amortization of actuarial losses	1	24	5	16
Net periodic benefit cost	\$ 393	\$ 114	\$ 278	\$ 102

Other Retirement Obligations

Prior to July 6, 2010, certain key employees participated in a nonqualified deferred compensation plan sponsored by Vishay Intertechnology. These employees transferred to a newly created nonqualified deferred compensation plan of VPG. The accompanying consolidated condensed balance sheets include a liability within other noncurrent liabilities related to these deferrals. Vishay Intertechnology maintains a nonqualified trust, referred to as a “rabbi” trust, to fund payments under this plan. Rabbi trust assets are subject to creditor claims under certain conditions and are not the property of employees. Therefore, they are accounted for as other noncurrent assets. Effective July 6, 2010, Vishay Intertechnology deposited an allocation of assets into a newly created rabbi trust for VPG. The consolidated condensed balance sheets include these rabbi trust assets of \$2.6 million at July 2, 2011 and \$2.6 million at December 31, 2010, which amounts approximate VPG’s liability under this plan at those dates.

Note 7 – Share Based Compensation

Effective July 6, 2010, the Company’s Board of Directors and Vishay Intertechnology (as the Company’s sole stockholder prior to the spin-off) approved the adoption of the Vishay Precision Group, Inc. 2010 Stock Incentive Program (as amended, the “2010 Program”). The 2010 Program permits the grant of up to 500,000 shares of restricted stock, unrestricted stock, restricted stock units (“RSUs”), and stock options to officers, employees and non-employee directors. At July 2, 2011, the Company had reserved 324,361 shares of common stock for future grant of equity awards, pursuant to the 2010 Program. If any outstanding awards are forfeited by the holder or cancelled by the Company, the underlying shares would be available for regrant to others.

Stock Options

In connection with the spin-off, VPG agreed to issue certain replacement awards to VPG employees holding equity-based awards of Vishay Intertechnology based on VPG’s common stock. The vesting schedule, expiration date, and other terms of these awards are generally the same as those of the Vishay Intertechnology equity-based awards they replaced. A large group of options expired approximately three months after the spin-off and were out-of-the- money throughout their respective terms.

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

	2011		Weighted Average Remaining Contractual Life
	Number of Options	Weighted Average Exercise Price	
<b>Outstanding:</b>			
Balance at January 1, 2011	32	\$ 18.03	
Granted	-	-	
Exercised	-	-	
Cancelled/expired	-	-	
Balance at July 2, 2011	32	\$ 18.03	4.98
<b>Vested and expected to vest</b>			
	32	\$ 18.03	
<b>Exercisable:</b>			
End of period	23	\$ 18.58	

The pretax intrinsic value (the difference between the closing stock price of VPG’s common stock on the last trading day of the fiscal quarter of \$17.05 per share and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on July 2, 2011 is not material. No options were exercised during the fiscal quarter or six fiscal months ended July 2, 2011.

## Note 7 – Share Based Compensation (continued)

## Restricted Stock Units

The VPG Board of Directors agreed to grant “founders’ equity” awards pursuant to the 2010 Program to directors and executive officers. The fair value of the awards to directors is recognized over a three year vesting schedule. The fair value of the awards to the executive officers is vested on July 6, 2013. Each RSU entitles the recipient to receive a share of common stock when the RSU vests. The amount of compensation cost related to share-based payment transactions is measured based on the grant-date fair value of the equity instruments issued. VPG determines compensation cost for RSUs based on the grant-date fair value of the underlying common stock. Compensation cost is recognized over the period that the participant provides service in exchange for the award.

On June 2, 2011, the VPG Board of Directors approved the issuance of 3,036 restricted stock units to the three independent board members and to the non-executive Chairman of the Board. The amount of compensation cost related to share-based payment transactions is measured based on the grant-date fair value of the equity instruments issued. The compensation cost with respect to the awards is recognized ratably over the one year vesting period of such awards.

VPG’s three executive officers are entitled to annual performance-based equity awards. Performance criteria include measures of operating margin and EBITDA for the Company. In addition, for 2011, the chief technical officer has a number of personal objectives that must be achieved in order to receive his full bonus. If the performance criteria are met, the RSUs are granted, and thereafter the RSUs vest 25% on the date of grant and the balance in annual installments over the three subsequent years. The awards relating to 2010 performance have an aggregate target grant-date fair value of \$0.6 million. All performance goals were met for the 2010 awards resulting in the granting of 35,949 RSUs on March 15, 2011. One quarter of the awards vested on that date. The remaining portion of the RSUs will vest ratably over the next three years. The awards with respect to 2011 performance have an aggregate target grant-date fair value of \$0.7 million and will be determined and granted during the fiscal year ending December 31, 2012. The Company recognizes compensation cost for RSUs that are expected to vest, and expects performance criteria to be met.

VPG’s chief executive officer was granted 3,765 RSUs on March 15, 2011 at a grant-date fair value of \$11.53. These awards vest in equal amounts on May 28, 2011, May 28, 2012, and May 28, 2013. These RSUs were granted in replacement of corresponding restricted stock units of Vishay Intertechnology that were cancelled in connection with the spin-off from Vishay Intertechnology.

RSU activity as of July 2, 2011 is presented below (number of RSUs in thousands):

	Number of RSUs	Weighted Average Grant-date Fair Value
<b>Outstanding:</b>		
Balance at January 1, 2011	101	\$ 15.79
Granted	43	16.40
Vested	(10)	16.12
Cancelled	-	-
Balance at July 2, 2011	134	\$ 15.96

Note 7 – Share Based Compensation (continued)

Share based Compensation Expense

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

	Fiscal quarter ended		Six fiscal months ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Stock options	\$ 5	\$ 10	\$ 10	\$ 20
Restricted stock units	163	4	305	8
Restricted stock units (performance based)	82	-	161	-
Other	-	-	-	44
Total	\$ 250	\$ 14	\$ 476	\$ 72



Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

Note 8 – Segment Information

VPG reports in two segments: Foil Technology Products segment and Weighing Modules and Control Systems segment. The Foil Technology Products reporting segment is comprised of the foil resistors and strain gage operating segments and the Weighing Modules and Control Systems reporting segment is comprised of the transducers/load cells and weighing systems operating segments.

VPG evaluates reporting segment performance based on operating income, exclusive of certain items. Management believes that evaluating segment performance, excluding items such as restructuring and severance costs, and other items is meaningful because it provides insight with respect to intrinsic operating results of VPG.

	Fiscal quarter ended		Six fiscal months ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
<b>Net third-party revenues:</b>				
Foil Technology Products	\$ 29,030	\$ 25,584	\$ 57,208	\$ 49,481
Weighing Modules & Control Systems	33,103	27,330	64,450	51,608
Total	\$ 62,133	\$ 52,914	\$ 121,658	\$ 101,089
<b>Gross profit:</b>				
Foil Technology Products	\$ 13,356	\$ 12,574	\$ 25,828	\$ 24,506
Weighing Modules & Control Systems	8,734	7,408	17,272	12,524
Total	\$ 22,090	\$ 19,982		
Award	Any one or more of the following: Incentive Stock Option; Non-qualified Stock Option; Stock Appreciation Right; Restricted Shares; Restricted Stock Units; Performance Share Units; and Performance Shares.			
Beneficiary	The person or persons designated in writing by the Participant as his Beneficiary in respect of Awards or, in the absence of such a designation or if the designated person or			

persons  
predecease the  
Participant,  
the person or  
persons who  
shall acquire  
the  
Participant's  
rights in  
respect of  
Awards by  
bequest or  
inheritance in  
accordance  
with the  
applicable  
laws of  
descent and  
distribution. In  
order to be  
effective, a  
Participant's  
designation of  
a Beneficiary  
must be on  
file with the  
Corporation  
before the  
Participant's  
death. Any  
such  
designation  
may be  
revoked and a  
new  
designation  
substituted  
therefor by the  
Participant at  
any time  
before his  
death without  
the consent of  
the previously  
designated  
Beneficiary.

Board of Directors

The Board of  
Directors of  
the  
Corporation.

---

Cash- Settled Stock Appreciation Rights	Stock Appreciation Rights settled in cash.
Code	The Internal Revenue Code of 1986, as amended from time to time.
Committee	The Compensation Committee or any other committee of the Board of Directors which is authorized to grant Awards under this Plan. The Committee must be composed solely of two or more outside directors, as defined under Code Section 162(m) and applicable regulations thereunder.
Common Stock	The Common Stock of the Corporation.
Disability	A disability that has enabled the Participant to receive a disability benefit under the Long-Term Disability Plan of the Corporation or a long-term disability plan of a Subsidiary Company (whichever is applicable), as amended from time to time, for a period of at least three months.
Executive Officers	Officers designated by the Board of Directors as Executive Officers for purposes of Section 16 of the Securities Exchange Act of 1934.
Exercise Gain Shares	With respect to a Stock Appreciation Right, all of the shares of Common Stock received upon exercise of the Stock Appreciation Right.  With respect to an Option, the portion of the shares of Common Stock received upon exercise of the Option equal to the excess of the Fair Market Value, as of the exercise date, over the Option price, multiplied by the number of shares purchased under the Option on the exercise date, divided by such Fair Market Value, and rounded down to the nearest whole number of shares.
Fair Market Value	The value of Common Stock on a particular date as measured by the mean of the high and low prices at which it is traded on such date as reported in the Composite Transactions for such date by Bloomberg L.P., or its successor, on its internet-based service, or, if Common Stock was not traded on such date, on the next preceding day on which Common Stock was traded.
Incentive Stock Option	An Option that complies with the terms and conditions set forth in Section 422(b) of the Code and is designated by the Committee as an Incentive Stock Option.
Non-Qualified Stock Option	An Option granted under the Plan other than an Incentive Stock Option.
Option	Any option to purchase Common Stock granted pursuant to the provisions of Section 6 or Section 7 of the Plan.
Optionee	A Participant who is the holder of an Option.

## Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

Participant	Any officer or key employee of the Corporation or a Subsidiary Company selected by the Committee to participate in the Plan and any non-employee director of the Corporation.
Performance Cycle	The period of time, designated by the Committee, over which Performance Shares may be earned.
Performance Criteria	One or more, or any combination, of the following business criteria, selected by the Committee, which may be applied on a corporate, department or division level: earnings measures (including net income, earnings per share, income from continuing operations, income before income taxes, income from railway operations); return measures (including net income divided by total assets, return on shareholder equity, return on average invested capital); cash flow measures (including operating cash flow and free cash flow); productivity measures (including total operating expense per thousand gross ton miles or revenue ton miles, total operating revenue per employee, total operating expense per employee, gross ton miles or revenue ton miles per employee, carloads per employee, revenue ton miles per mile of road operated, total operating expense per carload, revenue ton miles per carload, gross ton miles or revenue ton miles per train hour, percent of loaded-to-total car miles); fair market value of shares of the Corporation's Common Stock; revenue measures; expense measures; operating ratio measures); customer satisfaction measures; working capital measures; cost control measures; total shareholder return measures; and safety measures.
Performance Criteria Weighting Percentage	The percentage weighting accorded to each Performance Criterion (or each combination thereof) selected by the Committee. The total of the Performance Criteria Weighting Percentages for any type of Award shall equal one hundred percent (100%).
Performance Goal	The specific target set by the Committee for each selected Performance Criterion (or each combination thereof). A Performance Goal may be set solely with respect to the Corporation's performance, or as compared to the performance of a published or special index deemed applicable by the Committee, including but not limited to the Standard & Poor's 500 Stock Index or an index based on a group of comparative companies.
Performance Shares	Shares of Common Stock granted pursuant to Section 11 of the Plan, which may be made subject to the restrictions and other terms and conditions prescribed in Section 11 of the Plan.
Performance Share Units	Contingent rights to receive Performance Shares pursuant to Section 11 of the Plan.
Restricted Shares	Shares of Common Stock granted pursuant to Section 9 of the Plan and subject to the restrictions and other terms and conditions set forth therein.
Restricted Stock Unit	Contingent rights, granted pursuant to Section 10 of the Plan, to receive Restricted Stock Unit Shares or cash payment for the Fair Market Value of shares of Common Stock, subject to the restrictions and other conditions set forth herein. Each Restricted Stock Unit shall equal the Fair Market Value of one share of Common Stock.

Restricted Stock Unit Shares	Shares of Common Stock issued as payment for Restricted Stock Units pursuant to Section 10 of the Plan, which may be made subject to the restrictions and other terms and conditions prescribed in Section 10 of the Plan.
Restriction Period	A period of time not less than thirty-six (36) nor more than sixty (60) months, to be determined within those limits by the Committee in its sole discretion, commencing on the date as of which Restricted Shares or Restricted Stock Units are granted, during which the restrictions imposed by paragraphs (b) and (c) of Section 9 or paragraphs (b) and (c) of Section 10 of the Plan shall apply. The Committee shall determine whether to impose a Restriction Period and the length of the Restriction Period at the time that the Restricted Shares or Restricted Stock Units are granted. Such Restriction Period, if any, shall be incorporated in the Restricted Share Agreement or Restricted Stock Unit Agreement setting forth the grant. Under Sections 9 and 10 of this Plan, the Committee may, in its discretion, provide that the Restriction Period shall expire upon the earlier achievement of Performance Goals.
Retirement	Retirement from the Corporation and all Subsidiary Companies pursuant to the provisions of the Retirement Plan of the Corporation or a retirement plan of a Subsidiary Company (whichever is applicable), as amended from time to time.
Share Retention Agreement	An agreement entered into pursuant to Section 12 of the Plan.
Stock Appreciation Right	The right, granted pursuant to the provisions of Section 8 of the Plan, to receive Exercise Gain Shares or a payment equal to the excess, if any, of the Fair Market Value of Common Stock on the exercise date over the Fair Market Value of the Common Stock on the grant date, as specified in Section 8 of the Plan.
Stock-	Stock Appreciation Rights paid out in Exercise Shares.
Settled Stock Appreciation Rights	
Subsidiary Company	A corporation of which at least fifty percent (50%) of the total combined voting power of all classes of stock entitled to vote is owned, directly or indirectly, by the Corporation.

**Section 3. ADMINISTRATION**

The Plan shall be administered by the Committee, which, subject to the limitations set forth herein, shall have the full and complete authority and sole discretion, except as may be delegated to the Corporation's chief executive officer as provided herein, from time to time to construe and interpret the Plan; to select the officers, key employees and non-employee directors who shall be granted Awards under the Plan; to determine the type, size, terms, and conditions of the Award or Awards to be granted to each such Participant; to authorize the grant of such Awards pursuant to the Plan; in connection with the merger or consolidation of the Corporation, to give a Participant an election to surrender an Award in exchange for the grant of a new Award; to adopt, amend and rescind rules and regulations relating to the Plan; and to make all other determinations and take all other actions it may deem necessary or advisable for

the implementation and administration of the Plan. The Committee in its sole discretion may delegate authority to the Corporation's chief executive officer to select the officers and key employees who shall be granted Awards under the Plan (provided, however, that only the Committee shall grant Awards to the chief executive officer and Executive Officers); to determine the type, size, terms, and conditions of the Award or Awards to be granted to each such Participant; and to authorize the grant of such Awards pursuant to the Plan, in which case the chief executive officer shall have the full and complete authority to act on the Committee's behalf to the extent so delegated. The Committee, or the chief executive officer to the extent as may be delegated by the Committee (hereinafter, the term "Committee" shall include reference to the chief executive officer to the extent of any such delegation), may authorize the grant of more than one type of Award, and Awards subject to differing terms and conditions, to any eligible Participant. The Committee's decision to authorize the grant of an Award to a Participant at any time shall not require the Committee to authorize the grant of an Award to that Participant at any other time or to any other Participant at any time; nor shall its determination with respect to the size, type, or terms and conditions of the Award to be granted to a Participant at any time require it to authorize the grant of an Award of the same type or size or with the same terms and conditions to that Participant at any other time or to any other Participant at any time. The Committee shall not be precluded from authorizing the grant of an Award to any eligible Participant solely because the Participant previously may have been granted an Award of any kind under the Plan.

All determinations of the Committee shall be by a majority of its members and shall be final, conclusive and binding. Each member of the Committee, while serving as such, shall be considered to be acting in his capacity as a director of the Corporation, and no member of the Committee shall be liable for any action taken or decision made in good faith with respect to the implementation or administration of the Plan.

#### **Section 4. ELIGIBILITY**

To be eligible for selection by the Committee to participate in the Plan, an individual must be a full-time salaried officer or key employee of the Corporation, or of a Subsidiary Company, and must reside in the United States or Canada, on the date on which the Committee authorizes the grant to such individual of an Award. A non-employee director shall be eligible to participate in the Plan if he or she is a director of the Corporation and is not a full-time salaried employee of the Corporation or a Subsidiary Company on the date on which the Committee authorizes the grant of an Award to non-employee directors.

#### **Section 5. SHARES AVAILABLE**

Effective May 10, 2001, an additional 30,000,000 shares of Common Stock were approved for issuance pursuant to the Plan, and no more than 6,000,000 of such additional shares could be awarded as Restricted Shares or Performance Shares. Subject to approval of the Plan, as hereby amended, by the separate vote of the holders of a majority of the shares of Common Stock present or represented and entitled to vote at a meeting of the stockholders of the Corporation, at which a quorum for the proposal is present, not more than 8,500,000 of the shares remaining available for issuance under the Plan on the date of such approval may be awarded as Restricted Shares, Performance Shares or Restricted Stock Unit Shares. Such shares shall be provided from shares of Common Stock authorized but not issued. Stock Appreciation Rights to be settled in shares of Common Stock shall be counted in full against the number of shares available for award under the Plan, regardless of the number of Exercise Gain Shares issued upon settlement of the Stock Appreciation Right. Any shares of Common Stock which were subject to an Option, a Performance Share Unit, or a Restricted Stock Unit and which were not issued as Common Stock prior to the expiration of the Award shall thereafter again be available for

award under the Plan. Any shares of Common Stock which were subject to a Stock Appreciation Right to be settled in shares of Common Stock shall again be available for award under the Plan after expiration or forfeiture of an Award. Upon the forfeiture of any Restricted Shares, the forfeited shares of Common Stock shall thereafter be available for award under the Plan. Notwithstanding any other provision to the contrary, no Participant may be awarded a grant in any one year, which, when added to any other grant of Options, Stock Appreciation Rights, Restricted Shares, Restricted Stock Units and Performance Share Units in the same year, shall exceed 1,500,000 shares of Common Stock. If an Option is canceled, the canceled Option continues to count against the maximum number of shares for which Options may be granted to a Participant in any year. The settlement in cash of Restricted Stock Units, Performance Share Units and Stock Appreciation Rights shall not be counted against the total number of shares available under this Section 5 for issuance under the Plan.

## Section 6. INCENTIVE STOCK OPTIONS

(a) General The Committee may authorize the grant of Incentive Stock Options subject to the terms and conditions set forth in this Section 6. The grant of an Incentive Stock Option shall be evidenced by a written Stock Option Agreement between the Corporation and the Optionee, setting forth the number of shares of Common Stock subject to the Incentive Stock Option evidenced thereby and the terms, conditions, and restrictions applicable thereto. The issuance of shares of Common Stock pursuant to an Incentive Stock Option also shall be subject to the provisions of any Share Retention Agreement that may be required by the Committee under Section 12 of the Plan.

Except for adjustments pursuant to Section 14 of the Plan, the Option Price for any outstanding Incentive Stock Option granted under the Plan may not be decreased after the date the Option is granted, nor may an outstanding Option be modified or replaced if the effect would be to reduce the Option Price, unless such repricing, modification or replacement is approved by the vote of a majority of the shares of Common Stock present or represented and entitled to vote at a meeting of the stockholders of the Corporation at which a quorum is present.

(b) Option Price - The Committee shall determine the Option price for each share of Common Stock purchased under an Option, but, subject to the provisions of Section 14 of the Plan, in no event shall the Option price be less than one hundred percent (100%) of the Fair Market Value of the Common Stock on the date the Option is granted.

(c) Duration of Options - The Committee shall fix the term or duration of Options, provided that such term shall not exceed ten (10) years from the date the Option is granted, and that such term shall be subject to earlier termination pursuant to the provisions of paragraph (g) of this Section 6 or paragraph (e) of Section 8 of the Plan.

(d) Non-Transferability of Options - Options are not transferable other than by will or the applicable laws of descent and distribution following the death of the Optionee. Options may be exercised during the lifetime of the Optionee only by him, and following his death only by his Beneficiary.

(e) Exercise of Options - The Committee shall determine the time or times at which Options may be exercised; provided that such time or times shall not occur before the latest of:

(i) the first anniversary of the date on which the Option was granted; and

(ii) the effectiveness of any registration statement required to be filed under the Securities Act of 1933 for the registration of the Common Stock to be issued upon exercise of the Option.

(f) Payment of Option Price - The purchase price of Common Stock upon exercise of an Option shall be paid in full to the Corporation at the time of the exercise of the Option in cash or, at the discretion of the Committee and subject to any limitations or requirements that the Committee may adopt, by the surrender to the Corporation of shares of previously acquired Common Stock, which have been held by the Optionee for at least twelve (12) months and which shall be valued at Fair Market Value on the date that the Option is exercised, or, at the discretion of the Committee, by a combination of cash and such Common Stock.

(g) Termination of Options - No Option shall be exercisable after it expires. Each Option shall expire upon the earliest of:

(i) the expiration of the term for which the Option was granted;

(ii) (A) Except as otherwise provided by the Committee, in the case of an Optionee whose employment with the Corporation or a Subsidiary Company is terminated due to Retirement, Disability or death, the expiration of thirty-six (36) months after such termination of employment, or

(B) in the case of an Optionee whose employment with the Corporation or a Subsidiary Company is terminated for any reason other than Retirement, Disability, or death, at the close of business on the last day of active service by the Optionee with the Corporation or a Subsidiary Company, or

(C) in the case of an Optionee who is granted a leave of absence, if the Optionee's employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence, at the close of business on the last day of employment with the Corporation or a Subsidiary Company, or

(iii) in connection with a merger or consolidation of the Corporation, with the Optionee's consent, the grant of a new Award to replace the Option.

(h) Limitation on Exercisability - The aggregate Fair Market Value (determined as of the time the Incentive Stock Option is granted) of the Common Stock with respect to which Incentive Stock Options (granted on or after January 1, 1987) are exercisable for the first time by the Optionee during any calendar year shall not exceed \$100,000, as adjusted under Code Section 422(d)(1) and corresponding Treasury Regulations.

(i) Order of Exercise - As used in paragraph (h) of this Section 6, the term Incentive Stock Option shall mean an option to purchase stock which is granted pursuant to the provisions of this Plan or of any other plan of the Corporation or of a parent or subsidiary corporation (as defined by Section 424(f) of the Code) and which complies with the terms and conditions set forth in Code Section 422(b).



### **Section 7. NON-QUALIFIED STOCK OPTIONS**

The Committee may authorize the grant of Non-Qualified Stock Options subject to the terms and conditions specified in this Section 7. The grant of a Non-Qualified Stock Option shall be evidenced by a written Non-Qualified Stock Option Agreement between the Corporation and the Optionee, setting forth the number of shares of Common Stock subject to the Non-Qualified Stock Option evidenced thereby and the terms, conditions, and restrictions applicable thereto. Non-Qualified Stock Options granted pursuant to the provisions of this Section 7 shall be subject to the terms, conditions, and restrictions set forth in paragraphs (a) through (g) of Section 6 of the Plan. The limitations set forth in paragraph (h) of Section 6 of the Plan shall not apply to Non-Qualified Stock Options. The issuance of shares of Common Stock pursuant to a Non-Qualified Stock Option also shall be subject to the provisions of any Share Retention Agreement that may be required by the Committee under Section 12 of the Plan.

### **Section 8. STOCK APPRECIATION RIGHTS**

(a) General - The Committee may grant a Stock Appreciation Right to a Participant in connection with an Option, or portion thereof, or on a stand alone basis, as determined by the Committee, subject to the terms and conditions set forth in this Section 8. If granted in connection with an Option, the Stock Appreciation Right may be granted at the time of grant of the related Option and shall be subject to the same terms and conditions as the related Option, except as this Section 8 may otherwise provide. If granted in connection with an Option, the Stock Appreciation Right shall be evidenced either by provisions in the Stock Option Agreement evidencing the related Option or by a written Stock Appreciation Right Agreement between the Corporation and the Optionee, identifying the related Option, specifying the number of shares of Common Stock subject thereto and setting forth the terms and conditions applicable to the Stock Appreciation Right. If granted on a stand alone basis, the Stock Appreciation Right shall be evidenced by provisions of a written Stock Appreciation Right Agreement between the Corporation and the Participant. The Committee may grant Cash-Settled Stock Appreciation Rights or Stock-Settled Stock Appreciation Rights as shall be set forth in an Option Agreement or Stock Appreciation Right Agreement. Cash-Settled Stock Appreciation Rights shall be granted with fixed payment dates.

(b) Exercise If granted in connection with an Option, a Stock Appreciation Right shall be exercisable only at such time or times, to such extent, and by such persons, as the Option to which it relates shall be exercisable. If granted on a stand alone basis, a Stock Appreciation Right shall be exercisable only at such time or times, to such extent, and by such persons, as shall be set forth in the Stock Appreciation Right Agreement.

Stock Appreciation Rights shall be subject to the following restrictions:

(i) the Stock Appreciation Right may not be exercised before the expiration of one (1) year from the date on which it was granted; provided, however, that this subparagraph (i) shall not apply if the death or Disability of the Optionee occurs within one (1) year after the grant of the Stock Appreciation Right; and,

(ii) a Stock Appreciation Right granted in connection with an Incentive Stock Option may not be exercised on any date on which the Fair Market Value of a share of Common Stock is less than or equal to the Option price per share under the related Incentive Stock Option.

A Stock Appreciation Right shall be exercised by providing the Corporation with a written notice in such form and containing such information (including the number of shares of Common Stock with respect to which the Stock Appreciation Right is being

exercised) as the Committee may specify. If the Stock Appreciation Right was granted in connection with an Option, the Participant must surrender the related Option, or the portion thereof pertaining to the shares with respect to which the Stock Appreciation Right is exercised, and the date on which the Corporation receives such notice shall be the date on which the related Option, or portion thereof, shall be deemed surrendered and the Stock Appreciation Right shall be deemed exercised.

(c) Payment - Upon the proper exercise of a Stock-Settled Stock Appreciation Right granted on a stand alone basis, a Participant shall be entitled to receive Exercise Gain Shares equal to the number of shares of Common Stock that have an aggregate Fair Market Value on the exercise date equal to the amount by which the Fair Market Value of a share of Common Stock on the exercise date exceeds the Fair Market Value of a share of Common Stock on the grant date, multiplied by the number of Stock-Settled Stock Appreciation Rights surrendered in connection with the exercise of the Stock Appreciation Right.

Upon the proper exercise of a Stock-Settled Stock Appreciation Right granted in connection with an Option, an Optionee shall be entitled to receive Exercise Gain Shares equal to the number of shares of Common Stock that have an aggregate Fair Market Value on the exercise date equal to the amount by which the Fair Market Value of a share of Common Stock on the exercise date exceeds the Option price per share of the related Option, multiplied by the number of shares covered by the related Option, or portion thereof, surrendered in connection with the exercise of the Stock Appreciation Right. The Exercise Gain Shares shall be subject to the provisions of any Share Retention Agreement that may be required by the Committee under Section 12 of the Plan.

Upon the proper exercise of a Cash-Settled Stock Appreciation Right granted on a stand alone basis, a Participant shall be entitled to receive cash equal to the value of the number of shares of Common Stock that have an aggregate Fair Market Value on the exercise date equal to the amount by which the Fair Market Value of a share of Common Stock on the exercise date exceeds the Fair Market Value on the grant date, multiplied by the number of Cash-Settled Stock Appreciation Rights surrendered for settlement.

Upon the proper exercise of a Cash-Settled Stock Appreciation Right granted in connection with an Option, an Optionee shall be entitled to receive cash equal to the value of the number of shares of Common Stock that have an aggregate Fair Market Value on the exercise date equal to the amount by which the Fair Market Value of a share of Common Stock on the exercise date exceeds the Option price per share of the related Option, multiplied by the number of shares covered by the related Option, or portion thereof, surrendered in connection with the exercise of the Stock Appreciation Right.

(d) Termination of Right - A Stock Appreciation Right granted in connection with an Option shall expire, unless previously exercised or canceled, upon the expiration of an Option to which it relates, or upon such time as may be set forth in a Stock Appreciation Right Agreement. A Stock Appreciation Right granted on a stand alone basis shall be subject to the termination provisions set forth in paragraph (g) of Section 6 for Options and shall expire, unless previously exercised or cancelled, at such time as may be set forth in a Stock Appreciation Right Agreement.

(e) Effect of Exercise - A Stock Appreciation Right shall be canceled when, and to the extent that, it or a related Option is exercised, and an Option shall be canceled when, and to the extent that, the Option is surrendered to the Corporation upon the exercise of a related Stock Appreciation Right.

**Section 9. RESTRICTED SHARES**

(a) General - The Committee, in its sole discretion, may from time to time authorize the grant of Restricted Shares to a Participant pursuant to a Restricted Share Agreement. A certificate or certificates representing the number of Restricted Shares granted shall be registered in the name of the Participant. Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraph (d) or paragraph (e) of this Section 9, the certificate or certificates shall be held by the Corporation for the account of the Participant, and the Participant shall have beneficial ownership of the Restricted Shares, including the right to receive dividends on, and the right to vote, the Restricted Shares.

(b) Performance Goal Requirement - The Committee may determine, in its sole discretion, that a Participant's entitlement to Restricted Shares shall be subject to achievement of a specified Performance Goal or Goals during the Restriction Period. If so, the Committee shall select the Performance Criteria, the Performance Goal for each Performance Criteria or each combination thereof, and the Performance Criteria Weighting Percentage for each Performance Goal or each combination thereof within ninety (90) days of the commencement of the Restriction Period. The Committee may also determine that the Restriction Period shall expire upon achievement of established Performance Goals prior to the established end of the Restriction Period. At such time as the Committee certifies that the Performance Goals have been achieved, the Committee shall authorize delivery, within two and one-half months after the end of year in which it makes such a certification, of Restricted Shares (or such percentage of the Restricted Shares as equal the Percentage of Performance Goals that have been achieved) for which the Restriction Period has expired. If the Restricted Shares are subject to the achievement of Performance Goals, such Restricted Shares shall be forfeited to the extent Performance Goals are not achieved.

For Restricted Share subject to the achievement of performance goals, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, reduce the number of Restricted Shares deliverable to any such Executive Officer by between 0% and 100%, based on the individual's performance. For Restricted Share not subject to the achievement of performance goals, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, adjust the number of Restricted Shares deliverable to any such Executive Officer by between 0% and 125%, based on the individual's performance. The Corporation's chief executive officer may review the individual performance of any Participant other than an Executive Officer and may, at his discretion, adjust the number of Restricted Shares deliverable to any such Participant by between 0% and 125%, based on the individual's performance.

(c) Restrictions - Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraph (d) or paragraph (e) of this Section 9, Restricted Shares shall be subject to the following restrictions and any additional restrictions that the Committee, in its sole discretion, may from time to time deem desirable in furtherance of the objectives of the Plan:

(i) the Participant shall not be entitled to receive the certificate or certificates representing the Restricted Shares;

(ii) the Restricted Shares may not be sold, transferred, assigned, pledged, conveyed, hypothecated, or otherwise disposed of; and

(iii) the Restricted Shares may be forfeited as provided in paragraphs (b) or (e) of this Section 9, subject to the provisions of paragraph (f) of this Section 9.

(d) Distribution of Restricted Shares Subject to the provisions of paragraph (g) of this Section 9, if a Participant to whom Restricted Shares have been granted remains in the continuous employment of the Corporation or a Subsidiary Company during the entire Restriction Period, upon the expiration of the Restriction Period all restrictions applicable to the Restricted Shares shall lapse, and the certificate or certificates representing the shares of Common Stock that were earned pursuant to paragraph (b) of this Section 9 shall be delivered to the Participant.

(e) Termination of Employment - If the employment of a Participant is terminated for any reason other than the Retirement, Disability, or death of the Participant in service before the expiration of the Restriction Period, the Restricted Shares shall be forfeited immediately and all rights of the Participant with respect to such shares shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company. If the Participant is granted a leave of absence before the expiration of the Restriction Period, the Participant shall not forfeit any rights with respect to any Restricted Shares subject to the Restriction Period, unless the Participant's employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence, at which time the shares shall be forfeited immediately and all rights of the Participant with respect to such shares shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company. If the Participant's employment is terminated by reason of the Retirement, Disability, or death of the Participant in service before the expiration of the Restriction Period and no Performance Goals have been imposed, the restrictions on the Restricted Shares shall lapse upon the expiration of the Restriction Period and delivery of the Restricted Shares shall be made to the Participant, or the Participant's Beneficiary in the event of the Participant's death, at the end of the Restriction Period; if Performance Goals have been imposed, the restrictions on the Restricted Shares shall lapse upon and to the extent that the Committee certifies that Performance Goals have been achieved and delivery of the Restricted Shares shall be made to the Participant, or the Participant's Beneficiary in the event of the Participant's death, in accordance with paragraph (b) or (g) of this Section 9, as applicable.

(f) Waiver of Restrictions - The Committee, in its sole discretion, may waive any or all restrictions with respect to Restricted Shares. Notwithstanding any waiver, any delivery of Restricted Shares may not be made earlier than delivery would have been made absent such waiver of restrictions.

(g) Expiration of Restriction Period Upon Achievement of Performance Goals - If the Restriction Period expires due to the achievement of Performance Goals, distribution of Restricted Shares must be made no later than two and one-half months after the end of the year in which the Committee certified that the Performance Goals have been achieved.

## **Section 10. RESTRICTED STOCK UNITS**

(a) General - The Committee, in its sole discretion, may from time to time authorize the grant of Restricted Stock Units ( Units ) to a Participant pursuant to Restricted Stock Unit Agreement. Such Units shall be recorded in individual memorandum accounts maintained by the Committee or its agent. The grant of Restricted Stock Units shall entitle the Participant to payment in Restricted Stock Unit Shares or cash, as provided for in the Restricted Stock Unit Agreement. The Participant shall have no beneficial ownership interest in the Common Stock represented by the Units and no right to receive a certificate representing shares

of Restricted Stock Unit Shares prior to expiration of the Restriction Period and achievement of any Performance Goals. The Participant shall have no right to vote the Common Stock represented by the Units or to receive dividends (except for any dividend equivalent payments which may be awarded by the Committee in connection with such Units) on the Common Stock represented by the Units. The grant of Units shall be evidenced by a Restricted Stock Unit Agreement between the Corporation or Subsidiary Company and the Participant, identifying the number of Units awarded, and setting forth the terms and conditions applicable to the Units.

(b) **Performance Goal Requirement** The Committee may determine, in its sole discretion, that a Participant's entitlement to payment in cash or Restricted Stock Unit Shares for Restricted Stock Units shall be subject to achievement of a specified Performance Goal or Goals over the duration of the Restriction Period. If so, the Committee shall select the Performance Criteria, the Performance Goals or each combination thereof, and the Performance Criteria Weighting Percentage for each Performance Goal or each combination thereof within ninety (90) days of the commencement of the Restriction Period. The Committee may determine that the Restriction Period shall expire upon achievement of established Performance Goals prior to the established end of the Restriction Period. At such time, as the Committee certifies that the Performance Goals have been achieved, the Committee shall authorize settlement of Units in cash or Restricted Stock Unit Shares within two and one-half months after the end of the year in which it makes such certification. Such settlement shall be based on the Fair Market Value on the date all applicable restrictions lapse (or such percentage of the value of the Restricted Stock Units as equal the percentage of Performance Goals that have been achieved) for which the Restriction Period has expired. If the settlement of Restricted Stock Units is subject to the achievement of Performance Goals, such Restricted Stock Units shall be forfeited to the extent Performance Goals are not achieved.

For Restricted Stock Units subject to the achievement of performance goals, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, reduce the cash settlement or number of Restricted Stock Unit Shares delivered for the Restricted Stock Units granted to any such Executive Officer by between 0% and 100%, based on the individual's performance. For Restricted Stock Units not subject to the achievement of performance goals, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, adjust the cash settlement or number of Restricted Stock Unit Shares delivered for the Restricted Stock Units granted to any such Executive Officer by between 0% and 125%, based on the individual's performance. The Corporation's chief executive officer may review the individual performance of any Participant other than an Executive Officer and may, at his discretion, adjust the cash settlement or number of Restricted Stock Unit Shares delivered for the Restricted Stock Units granted to any such Participant by between 0% and 125%, based on the individual's performance.

(c) **Restrictions** - Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraphs (d) or (e) of this Section 10, Units shall be subject to the following restrictions and any additional restrictions that the Committee, in its sole discretion, may from time to time deem desirable in furtherance of the objectives of the Plan:

(i) the grant of Units to a Participant shall not entitle a Participant to receive cash payment or Restricted Stock Unit Shares;

(ii) the Units may not be sold, transferred, assigned, pledged, conveyed, hypothecated, or otherwise disposed of; and,

(iii) the Units may be forfeited immediately as provided in paragraph (e) of this Section 10, subject to the provisions of paragraph (f) of this Section 10.

(d) Distribution of Restricted Stock Units - If a Participant to whom Units have been granted remains in the continuous employment of the Corporation or a Subsidiary Company during the entire Restriction Period, upon the expiration of the Restriction Period all restrictions applicable to the Units shall lapse, and the Units shall be settled in cash or in Restricted Stock Unit Shares, based on Fair Market Value on the date all applicable restrictions lapse.

(e) Termination of Employment - If the employment of a Participant is terminated for any reason other than the Retirement, Disability, or death of the Participant in service before the expiration of the Restriction Period, the Units shall be forfeited immediately and all rights of the Participant with respect to such units shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company. If the Participant is granted a leave of absence before the expiration of the Restriction Period, the Participant shall not forfeit all rights with respect to any units subject to the Restriction Period, unless the Participant's employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence, at which time all rights of the Participant with respect to such units shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company. If the Participant's employment is terminated by reason of the Retirement, Disability, or death of the Participant in service before the expiration of the Restriction Period and no Performance Goals have been imposed, the restrictions on the Restricted Stock Units shall lapse upon the expiration of the Restriction Period and settlement of Restricted Stock Units shall be made at the end of the Restriction Period to the Participant, or his Beneficiary in the event of the Participant's death; if Performance Goals have been imposed, the restrictions on the Restricted Stock Units shall lapse upon and to the extent that the Committee certifies that Performance Goals have been achieved and settlement of the Restricted Stock Units shall be made to the Participant, or the Participant's Beneficiary in the event of the Participant's death, in accordance with paragraph (b) or (g) of this Section 10, as applicable.

(f) Waiver of Restrictions - The Committee, in its sole discretion, may waive any or all restrictions with respect to Units. Notwithstanding any waiver, any settlement of Units may not be made earlier than delivery would have been made absent such waiver of restrictions.

(g) Expiration of Restriction Period Upon Achievement of Performance Goals - If the Restriction Period expires due to the achievement of Performance Goals, settlement in cash must be made no later than two and one-half months after the end of the year in which the Committee certifies that the Performance Goals have been achieved.

## **Section 11. PERFORMANCE SHARES**

The Committee, in its sole discretion, may from time to time authorize the grant of Performance Share Units to a Participant. Performance Share Units shall entitle the Participant to Performance Shares (or cash in lieu thereof) upon the achievement of Performance Goals. The Committee shall select the Performance Criteria, set the Performance Goals and assign Performance Criteria Weighting Percentages to each Performance Criteria or each combination thereof within ninety (90) days of the commencement of the Performance Cycle. At such time as the Committee certifies, after the end of the Performance Cycle, that the Performance Goals have been achieved, the Committee shall authorize the payment of cash in lieu of Performance Shares or the issuance of Performance Shares registered in the name of the Participant (or such percentage of the value of the Performance Shares as equal the

percentage of Performance Goals that have been achieved), subject to the provisions of any Share Retention Agreement that may be required by the Committee under Section 12 of the Plan, or both. Settlement in cash or issuance of Performance Shares shall be made no later than two and one-half months after the end of the year in which the Committee certifies that the Performance Goals have been achieved.

(a) Individual Performance Reviews - In addition, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, reduce the cash settlement or number of Performance Shares deliverable to any such Executive Officer by between 0% and 100%, based on the individual's performance. The Corporation's chief executive officer may review the individual performance of any Participant other than an Executive Officer and may, at his discretion, adjust the cash settlement or number of Performance Shares deliverable to any such Participant by between 0% and 125%, based on the individual's performance.

(b) Distribution or Forfeiture of Performance Shares - If the Participant's employment with the Corporation or a Subsidiary Company is terminated before the end of a Performance Cycle for any reason other than Retirement, Disability, or death, the Participant shall forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle. If the Participant is granted a leave of absence before the end of a Performance Cycle, the Participant shall not forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle, unless the Participant's employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence, at which time the Participant shall forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle. If the Participant's employment is terminated before the end of a Performance Cycle by reason of Retirement, Disability, or death, the Participant's rights with respect to any Performance Shares being earned during the Performance Cycle shall, subject to the other provisions of this Section 11, continue as if the Participant's employment had continued through the end of the Performance Cycle.

## **Section 12. SHARE RETENTION AGREEMENTS**

(a) General - The Committee, in its sole discretion, may require as a condition of a grant, exercise, settlement or payment with respect to any Award under the Plan that the Participant and the Corporation enter into a Share Retention Agreement, which shall provide that the certificate or certificates representing any Exercise Gain Shares, Restricted Shares, Restricted Stock Unit Shares, or Performance Shares, when issued, shall be held by the Secretary of the Corporation for the benefit of the Participant until such time as the retention period specified by the Share Retention Agreement has expired or has been waived by the Committee, whichever occurs first. Each Share Retention Agreement may include some or all of the terms, conditions and restrictions set forth in paragraphs (b) through (g) of this Section 12.

(b) Retention Period - Exercise Gain Shares, Restricted Shares, Restricted Stock Unit Shares, and Performance Shares that are subject to the Share Retention Agreement may not be sold, transferred, assigned, pledged, conveyed, hypothecated or otherwise disposed of within such period of time, of not less than twenty-four (24) months and not more than sixty (60) months following the exercise date (in the case of Exercise Gain Shares) or the date of issuance (in the case of Restricted Shares, Restricted Stock Unit Shares, or Performance Shares), as shall be prescribed by the Committee.

(c) Tax Absorption Payment - The Corporation may make a cash payment at any time prior to or simultaneously with settlement or payment of an Award, either directly to the Participant or on the Participant's behalf, in an amount that the Committee estimates to be equal (after taking into account any Federal and state taxes that the Committee estimates to be applicable to such cash payment) to any additional Federal and state income taxes that are imposed upon the Participant as a result of the issuance of the Exercise Gain Shares, Restricted Shares, Restricted Stock Unit Shares, or Performance Shares that are subject to the Share Retention Agreement. In determining the amount to be paid pursuant to this paragraph (c), the Committee may adopt such methods and assumptions as it considers appropriate, and it shall not be required to examine the individual tax liability of each Participant who has entered into a Share Retention Agreement.

(d) Termination of Employment - If a Participant's employment with the Corporation or a Subsidiary Company is terminated for any reason other than Retirement, Disability, or death, Exercise Gain Shares, Restricted Shares, Restricted Stock Unit Shares, or Performance Shares subject to the Share Retention Agreement shall continue to be held, following the Participant's termination of employment, until the expiration of the retention period specified by the Share Retention Agreement. If the Participant's employment is terminated by reason of Retirement or Disability, Exercise Gain Shares, Restricted Shares, Restricted Stock Unit Shares, and Performance Shares then held subject to the Share Retention Agreement shall continue to be held until the expiration of the applicable retention period following termination of employment, but any such retention period shall cease upon the earlier of the Participant's attainment of age 65 or the expiration of two (2) years after the Participant's Retirement or Disability, if either of those events occurs before the expiration of the applicable retention period. If the Participant dies while Exercise Gain Shares, Restricted Shares, Restricted Stock Unit Shares, or Performance Shares are subject to a retention period under the Share Retention Agreement, such retention period shall expire immediately at the time of death.

(e) Leave of Absence - If a Participant is granted a leave of absence, Exercise Gain Shares, Restricted Shares, Restricted Stock Unit Shares, or Performance Shares subject to the Share Retention Agreement shall continue to be held during the leave of absence, until the expiration of the retention period specified by the Share Retention Agreement.

(f) Change in Control - Upon a Change in Control, the retention periods specified by all Share Retention Agreements shall immediately expire.

A Change in Control shall occur if:

(i) any person, other than the Corporation or a Subsidiary Company or any employee benefit plan sponsored by the Corporation or a Subsidiary Company, shall become the beneficial owner of, or obtain voting control over, 20% or more of the Corporation's outstanding Common Stock;

(ii) the stockholders of the Corporation shall approve (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities, or other property, other than a merger of the Corporation in which holders of Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger as immediately before, or (B) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Corporation; or

(iii) there shall have been a change in the composition of the Board of Directors such that within any period of two (2) consecutive years or less individuals who at the beginning of such period constituted such Board, together with any new directors whose election, or nomination for election by the Corporation's stockholders, was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period, shall for any reason no longer constitute a majority of the directors of the Corporation.



If the expiration of a Share Retention Agreement pursuant to this paragraph (e) causes a Participant to be subject to an excise tax under Section 4999 of the Code, or any successor provision thereto (the "Excise Tax"), the Corporation shall make a cash payment, either directly to the Participant or on the Participant's behalf, in an amount that the Committee estimates to be equal (after taking into account any Federal and state taxes, including interest and penalties, that the Committee estimates to be applicable to the additional cash payment) to the additional Excise Tax imposed on the Participant as a result of the expiration of the Share Retention Agreement. In determining the amount to be paid pursuant to this subparagraph, the Committee may adopt such methods and assumptions as it considers appropriate, and it shall not be required to examine the individual tax liability of each Participant to whom this subparagraph applies.

(g) Waiver of Requirements - The Committee, in its sole discretion, may waive any or all retention periods or other restrictions in the Share Retention Agreement.

(h) Distribution of Shares - The Secretary of the Corporation shall promptly distribute the certificate or certificates representing the Exercise Gain Shares, Restricted Shares, Restricted Stock Unit Shares or Performance Shares subject to a Share Retention Agreement upon expiration of the retention period or other termination or waiver of the restrictions under this Section 12.

### **Section 13. DIVIDEND EQUIVALENT PAYMENTS**

The Committee may authorize the immediate payment of dividend equivalents on some or all of the shares of Common Stock covered by Options in an amount equal to, and commensurate with, dividends declared by the Board of Directors and paid on Common Stock. The Committee may authorize the immediate or deferred payment of dividend equivalents on some or all of the shares of Common Stock covered by Performance Share Units and Restricted Stock Units. Dividend equivalents payable on Option shares or on Performance Share Units under this Section 13 may be paid in cash or in Common Stock at the discretion of the Committee. Dividend equivalents payable on Restricted Stock Units under this Section 13 may be paid in cash or converted to additional Restricted Stock Units, at the discretion of the Committee. The Committee may authorize the immediate payment of dividend equivalents under this Section 13 with respect to any Option for all or some portion of its term by including a specific provision, authorizing such immediate payment, in the Incentive Stock Option Agreement required under Section 6(a) of the Plan or the Non-qualified Stock Option Agreement required under Section 7 of the Plan. The Committee may authorize the immediate or deferred payment of dividend equivalents under this Section 13 with respect to any Performance Share Unit for all or some portion of its term as a term and condition of the Performance Share Unit grant. The Committee may authorize the immediate or deferred payment of dividend equivalents under this Section 13 with respect to any Restricted Stock Unit for all or some portion of its term as a term and condition of the Restricted Stock Unit Agreement, by including a specific provision, authorizing such payment, in the Restricted Stock Unit Agreement required under Section 10 of the Plan. Notwithstanding the above, dividend equivalent payments shall not be made during a Participant's leave of absence. Any dividend equivalent payment is required to be paid in a manner that complies with Code Section 409(A).

#### **Section 14. NON-COMPETE COVENANT**

The Committee, in its sole discretion, may require as a condition of a grant, exercise, settlement or payment with respect to any Award under the Plan that the Award shall be subject to immediate forfeiture, and all rights of the Participant to such Award shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company, if the Participant Engages in Competing Employment (as defined in this Section 14 of the Plan) for a specified period of time following termination of employment. The terms of such a non-compete covenant shall be as set forth in the agreement or grant providing the terms of an Award and are incorporated herein by reference.

For purposes of the provision, Engages in Competing Employment shall mean to work for or provide services for any Competitor, on the Participant's own behalf or in the service of or on behalf of others, including, but not limited to, as a consultant, independent contractor, owner, officer, partner, joint venturer, or employee, at any time during the specified period commencing on the date of his or her termination of employment (including Retirement). Competitor shall mean any entity in the same line of business as the Corporation in North American markets in which the Corporation competes, including, but not limited to, any North American Class I rail carrier, any other rail carrier competing with the Corporation (including without limitation a holding or other company that controls or operates or is otherwise affiliated with any rail carrier competing with the Corporation), and any other provider of transportation services competing with Corporation, including motor and water carriers.

#### **Section 15. CAPITAL ADJUSTMENTS**

In the event of a recapitalization, stock split, stock dividend, exchange, combination, or reclassification of shares, merger, consolidation, reorganization, or other change in or affecting the capital structure or capital stock of the Corporation, the Board of Directors, upon the recommendation of the Committee, may make appropriate adjustments in the number of shares of Common Stock authorized for the Plan and in the annual limitation imposed by Section 5 of this Plan; and the Committee may make appropriate adjustments in the number of shares subject to outstanding Options, Stock Appreciation Rights, Restricted Shares, Restricted Stock Units, or Performance Share Unit grants, and in the Option price of any then outstanding Options, as it deems equitable, in its absolute discretion, to prevent dilution or enlargement of the rights of Participants. To the extent required to prevent the treatment of any Award as deferred compensation under Code Section 409A, the Committee will follow the requirements of Code Section 424 and related Treasury Regulations.

#### **Section 16. REGULATORY APPROVALS**

The exercise of each Option and Stock Appreciation Right, and the grant or distribution of Restricted Shares, Restricted Stock Units and Performance Shares, shall be subject to the condition that if at any time the Corporation shall determine in its discretion that the satisfaction of withholding tax or other tax liabilities, or the listing, registration, or qualification of any shares of Common Stock upon any securities exchange or under any Federal or state law, or the consent or approval of any regulatory body, is necessary or desirable as a condition of, or in connection with, such exercise, grant, or distribution, then in any such event such exercise, grant, or distribution shall not be effective unless such liabilities have been satisfied or such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not acceptable to the Corporation.

**Section 17. TERM OF THE PLAN**

(a) Term of the Plan - Awards may be granted from time to time under the terms and conditions of the Plan, but no Incentive Stock Option may be granted after the expiration of ten (10) years from the date of adoption of the Plan, as hereby amended, by the Board of Directors; provided, that any future amendment to the Plan that is approved by the stockholders of the Corporation in the manner provided under paragraph (a) of this Section 17 shall be regarded as creating a new Plan, and an Incentive Stock Option may be granted under such new Plan until the expiration of ten (10) years from the earlier of the approval by the Board of Directors, or the approval by the stockholders of the Corporation, of such new Plan. Incentive Stock Options theretofore granted may extend beyond the expiration of that ten-year period, and the terms and conditions of the Plan shall continue to apply thereto and to shares of Common Stock acquired upon the subsequent exercise of an Incentive Stock Option or related Stock Appreciation Right.

**Section 18. AMENDMENT OR TERMINATION OF THE PLAN**

The Corporation may at any time and from time to time alter or amend, in whole or in part, any or all of the provisions of the Plan, or may at any time suspend or terminate the Plan, through resolution of its Board of Directors, provided that no change in any Awards theretofore granted to any Participant may be made which would impair or diminish the rights of the Participant without the Participant's consent, and provided further, that no alteration or amendment may be made without the approval of the holders of a majority of the Common Stock then outstanding and entitled to vote if such stockholder approval is necessary to comply with the requirements of any rules promulgated under Section 16 of the Securities Exchange Act of 1934 or such other Federal or state laws or regulations as may be applicable. Notwithstanding this provision, the settlement of Cash Settled Stock Appreciation Rights may not occur before the fixed payment date upon the amendment or termination of the Plan.

**Section 19. MISCELLANEOUS**

(a) Fractional Shares - The Corporation shall not be required to issue or deliver any fractional share of Common Stock upon the exercise of an Option or Stock Appreciation Right, the award of Performance Shares, the payment of a dividend equivalent in Common Stock pursuant to Section 12 of the Plan or the withholding of shares of Common Stock for payment of taxes required to be withheld, but may pay, in lieu thereof, an amount in cash equal to the Fair Market Value of such fractional share.

(b) Withholding - The Corporation and its Subsidiary Companies shall have the right, to the extent permitted by law, to deduct from any payment of any kind otherwise due to a Participant any Federal, state or local taxes of any kind required by law to be withheld with respect to Awards under the Plan, and to the extent any such withholding requirements are not satisfied, each Participant shall pay to the Corporation any Federal, state or local taxes of any kind required by law to be withheld with respect to Awards under the Plan. The Corporation shall have the right to withhold shares of Common Stock, including fractional shares, from payment as necessary to satisfy any withholding obligations, but may only withhold the minimum number of shares necessary to do so. If fractional shares are withheld, any remaining fractional shares shall be paid in cash to the Participant as provided under paragraph (a) of this Section 20.

(c) Stockholder Rights - No person shall have any rights of a stockholder by virtue of an Option, Stock Appreciation Right, or Performance Share Unit except with respect to shares of Common Stock actually issued to him, and the issuance of shares of Common Stock shall confer no retroactive right to dividends.

(d) No Contract of Employment - This Plan shall not be deemed to be an employment contract between the Corporation or any Subsidiary Company and any Participant or other employee. Nothing contained herein, or in any agreement, certificate or other document evidencing, providing for, or setting forth the terms and conditions applicable to any Awards shall be deemed to confer upon any Participant or other employee a right to continue in the employment of the Corporation or any Subsidiary Company, or to interfere with the right of the Corporation or any Subsidiary Company to terminate the employment of such Participant or employee at any time.

(e) Unfunded Plan - Except as may otherwise be provided in the Plan, the Plan shall be unfunded. Neither the Corporation nor any Subsidiary Company shall be required to segregate any assets that may be represented by Options, Stock Appreciation Rights, Performance Share Units, or Restricted Stock Units, and neither the Corporation nor any Subsidiary Company shall be deemed to be a trustee of any amounts to be paid under an Option, Stock Appreciation Right, Performance Share Unit, or Restricted Stock Unit. Any liability of the Corporation to pay any Participant or Beneficiary with respect to an Option, Stock Appreciation Right, Performance Share Unit, or Restricted Stock Unit shall be based solely upon any contractual obligations created pursuant to the provisions of the Plan; no such obligation shall be deemed to be secured by any pledge or encumbrance on any property of the Corporation or a Subsidiary Company.

(f) Applicable Law - The Plan, its validity, interpretation, and administration, and the rights and obligations of all persons having an interest therein, shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, except to the extent that such laws may be preempted by Federal law.

(g) Gender and Number - Wherever used in the Plan, words in the masculine form shall be deemed to refer to females as well as to males, and words in the singular or plural shall be deemed to refer also to the plural or singular, respectively, as the context may require.

**NORFOLK SOUTHERN CORPORATION**

**EXECUTIVE MANAGEMENT INCENTIVE PLAN**

**AS AMENDED SUBJECT TO STOCKHOLDER APPROVAL**

The terms of this amended Plan, as set forth below, are subject to approval by the separate vote of the holders of a majority of the shares of Common Stock present or represented and entitled to vote at a meeting of the stockholders of the Corporation at which a quorum is present for the proposal.

**Section I. PURPOSE OF THE PLAN**

It is the purpose of the Norfolk Southern Corporation Executive Management Incentive Plan ( **Plan** ) to enhance increased profitability for Norfolk Southern Corporation ( **Corporation** ) by rewarding certain officers elected by the Board of Directors of Norfolk Southern Corporation and its affiliates with a bonus for collectively striving to attain and surpass financial objectives. The Corporation intends that the Plan comply with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended ( **Code** ) and intends that compensation paid under the Plan qualify as performance-based compensation under Code Section 162(m).

**Section II. ADMINISTRATION OF THE PLAN**

The Compensation Committee or any other committee of the Board of Directors of Norfolk Southern Corporation which is authorized to determine bonus awards under the Plan ( **Committee** ) shall administer and interpret this Plan and, from time to time, adopt such rules and regulations and make such recommendations to the Board of Directors concerning Plan changes as are deemed necessary to insure effective implementation of this Plan. The Committee shall be comprised solely of two or more Outside Directors (as defined in Treasury Regulation § 1.162-27(e)(3)).

No executive may simultaneously participate in more than one Norfolk Southern Corporation Incentive Group. An executive must reside in the United States or Canada in order to participate in the Plan.

**Section III. ESTABLISHMENT OF PERFORMANCE STANDARDS**

Within the first 90 days of an incentive year, the Committee shall establish:

- A. The Incentive Groups for the incentive year, which Groups shall consist of Board-elected officers at the level of Vice President and above,

- B. The bonus level for each Incentive Group for the incentive year, and
- C. The performance standard or standards for the Corporation for the incentive year. The performance standards shall be based on one or more, or any combination, of the following business criteria, selected by the Committee, which may be applied on a corporate, department or division level: earnings measures (including net income, earnings per share, income from continuing operations, income before income taxes, income from railway operations); return measures (including net income divided by total assets, return on shareholder equity, return on average invested capital); cash flow measures (including operating cash flow, free cash flow); productivity measures (including total operating expense per thousand gross ton miles or revenue ton miles, total operating revenue per employee, total operating expense per employee, gross ton miles or revenue ton miles per employee, carloads per employee, revenue ton miles per mile of road operated, total operating expense per carload, revenue ton miles per carload, gross ton miles or revenue ton miles per train hour, percent of loaded-to-total car miles); fair market value of shares of the Corporation's Common Stock; revenue measures; expense measures; operating ratio measures; customer satisfaction measures; working capital measures; cost control measures; economic value added measures; and safety measures. If the Committee establishes performance standards using more than one of the aforesaid business criteria, the Committee shall assign a weighting percentage to each business criterion or combination thereof; the sum of the weighting percentages shall equal 100%.

The Committee may establish performance standards solely with respect to the Corporation's performance without regard to the performance of other Corporations or indices, or by comparison of the Corporation's performance to the performance of a published or special index deemed applicable by the Committee including but not limited to, the Standard & Poor's 500 Stock Index or an index based on a group of comparative companies.

#### **Section IV. TYPE OF INCENTIVE BONUS**

On or before a date which shall not be later than the date that is six months prior to the last day of the incentive year to which the performance standards established pursuant to Section III apply for any incentive bonus that is performance-based compensation, as

defined in Code Section 409A, and which shall not be later than the last day of the year prior to the incentive year to which the performance standards established pursuant to Section III apply for any incentive bonus that is not performance-based compensation, as defined in Code Section 409A, each participant must elect to receive any incentive bonus which may be awarded to him or her for the incentive year either 100% cash or deferred in whole or in part. A participant shall be permitted to defer only 25%, 50%, 75% or 100% of the bonus for any incentive year. If the participant elects to receive 100% cash, the entire amount of the bonus for the incentive year shall be distributed to the participant, or his or her beneficiary, as hereinafter defined on or before March 1 of the year following the incentive year. If deferred in whole or in part, the amount deferred shall be allocated to the Norfolk Southern Corporation Executives' Deferred Compensation Plan (and such deferrals will be governed by the provisions of that plan) on or before March 1 of the year following the incentive year and the remainder, if any, shall be distributed in cash to the participant or his or her beneficiary on or before March 2 of the year following the incentive year.

Failure on the part of the participant to elect a deferral by the date specified, either in whole or in part for the incentive year, shall be deemed to constitute an election by such participant to receive the entire incentive bonus for the incentive year as a cash bonus.

#### **Section V. BONUS AWARDS**

At the end of the incentive year, the Committee shall certify in writing to what extent the performance standards established pursuant to Section III have been achieved during the incentive year and shall determine the Corporate Performance Factor based on such achievement. In determining the Corporate Performance Factor, special charges and restructuring charges, and unusual or infrequent accounting adjustments which are significant, and restatements or reclassifications, all as determined in accordance with Generally Accepted Accounting Principles, which would have the effect of reducing the Corporate Performance Factor shall be excluded, and which would have the effect of increasing the Corporate Performance Factor shall be included, unless the Committee shall determine otherwise.

A participant's bonus award shall be determined by multiplying the Corporate Performance Factor by the participant's bonus level, with the result multiplied by the participant's total salary paid during the incentive year. The bonus award payable to a participant for an incentive year shall not exceed three tenths of one percent (0.3%) of the Corporation's income from railway operations for the incentive year. The Committee may review the performance of any of the Corporation's Covered Employees, as defined in Code Section 162(m), and may, at its discretion, reduce the bonus award of any such Covered Employee between 0% and



100%, based on the individual's performance. The Corporation's chief executive officer may review the performance of any participant who is not a Covered Employee and may, at his discretion, adjust the bonus award of any such participant between 0% and 125%.

If the employment of a participant who is employed by Norfolk Southern Corporation or its affiliates during the incentive year terminates prior to the end of such year by reason of (1) death, or (2) normal retirement, early retirement or total disability under applicable Norfolk Southern Corporation plans and policies, then the phrase "total salary paid during the incentive year" means base salary paid to the participant during that portion of such year of employment prior to his or her termination and through the end of the calendar month or payroll period in which employment terminates but excludes any cash paid with respect to such participant's unused vacation. No incentive bonus for any incentive year shall be awarded or paid to any participant whose employment with Norfolk Southern Corporation and all its affiliates terminates before the end of such incentive year for a reason other than one of those specifically stated in the preceding sentence.

If a participant becomes eligible for the Plan during the year or becomes eligible for a different Incentive Group, then the amount of the award shall be adjusted proportionally to reflect such changes.

#### **Section VI. NO GUARANTEE OF CONTINUANCE OF EMPLOYMENT**

Nothing contained in this Plan or in any designation of a participant hereunder shall constitute or be deemed to constitute any evidence of an agreement or obligation on the part of Norfolk Southern Corporation or its affiliates to continue to employ any such participant for any period whatsoever.

#### **Section VII. AMENDMENT TO AND TERMINATION OF PLAN**

Norfolk Southern Corporation reserves the right at any time by a resolution duly adopted by its Board of Directors to amend this Plan in any manner or to terminate it at any time, except that no such amendment or termination shall deprive a participant or beneficiary of any rights hereunder theretofore legally accrued, and no such termination shall be effective for the year in which such resolution is adopted.

*Two More Ways to Vote Your Proxy*  
**VOTE BY TELEPHONE OR INTERNET**

**24 Hours a Day 7 Days a Week**

*Save Your Company Money It's Fast and Convenient*

<u>TELEPHONE</u>		<u>INTERNET</u>		<u>MAIL</u>
1-866-874-4879		<a href="https://www.proxyvotenow.com/nsc">https://www.proxyvotenow.com/nsc</a>		
Use any touch-tone telephone.		Go to the website address shown above.		Mark, sign and date your Proxy Card.
Have your Proxy Card in hand.	<b>OR</b>	Have your Proxy Card in hand.	<b>OR</b>	Detach card from this Form.
Follow the simple recorded instructions.		Follow the simple instructions.		Return the card in the postage-paid envelope provided.

Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner and to the same extent as if you marked, signed and returned the proxy card. **If you have submitted your proxy by telephone or the Internet, there is no need for you to mail back your proxy card.**

**1-866-874-4879**  
**CALL TOLL-FREE TO VOTE**

**ÚDETACH PROXY CARD HERE IF YOU ARE NOT VOTING BY TELEPHONE OR INTERNETÚ**

x

**Votes MUST be indicated**

**(x) in Black or Blue ink.**

**Norfolk Southern Corporation recommends a vote FOR the following items:**

	For All	Withhold For All	Exceptions*		For	Against	Abstain
1. ELECTION OF DIRECTORS	..	..	..	2. Ratification of the appointment of KPMG LLP, independent registered public accounting firm, as auditors.	..	..	..
Nominees 2008: 1. Gerald L. Baliles, 2. Gene R. Carter, 3. Charles W. Moorman, IV, 4. J. Paul Reason				3. Approval of the Norfolk Southern Corporation Long-Term Incentive	..	..	..

Edgar Filing: Vishay Precision Group, Inc. - Form 10-Q

Exceptions

Plan, as amended.

**\*(Instructions: To withhold authority to vote for individual nominee(s), mark the Exceptions box and write the name(s) on the following blank line; proxy will be voted FOR remaining nominees.)**

4. Approval of the Norfolk Southern Corporation Executive Management Incentive Plan, as amended.

**In addition, in their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.**

To change your address, please mark this box

Please sign exactly as the name appears hereon. If stock is held in names of joint owners, both should sign.

**Sign, Date and Return the Proxy Card Promptly Using the Enclosed Envelope.**

Date

Share Owner sign here

Co-Owner sign here

ÚDetach Proxy Card HereÚ

**NORFOLK SOUTHERN CORPORATION**

THREE COMMERCIAL PLACE, NORFOLK, VIRGINIA 23510-2191

**This Proxy is Solicited on Behalf of the Board of Directors**

The undersigned hereby appoints David R. Goode, Landon Hilliard and Harold W. Pote, and each or any of them, proxy for the undersigned, with full power of substitution, to vote with the same force and effect as the undersigned at the Annual Meeting of Stockholders of Norfolk Southern Corporation to be held at The Roper Performing Arts Center, 340 Grandy Street, Norfolk, Virginia, on Thursday, May 12, 2005, and at any adjournments, postponements or reschedulings thereof, upon the matters more fully set forth in the Proxy Statement, dated March 17, 2005, and to transact such other business as properly may come before such meeting(s).

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED ON THE OTHER SIDE BY THE UNDERSIGNED STOCKHOLDER. **IF NO DIRECTION IS MADE**, THIS PROXY WILL BE VOTED **FOR** THE ELECTION OF DIRECTORS, RATIFICATION OF KPMG AS AUDITORS, AMENDMENT OF THE LONG-TERM INCENTIVE PLAN AND AMENDMENT OF THE EXECUTIVE MANAGEMENT INCENTIVE PLAN.

(Continued, and to be **MARKED, DATED AND SIGNED** on the other side)

NORFOLK SOUTHERN CORPORATION  
P.O. BOX 11145  
NEW YORK, N. Y. 10203-0145