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SOFTECH INC
Form 10QSB
January 14, 2005

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

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

For the Quarter Ended
November 30, 2004

Commission File Number
0-10665

SOFTECH, INC.

State of Incorporation
Massachusetts

IRS Employer Identification
04-2453033

2 Highwood Drive, Tewksbury, MA 01876
Telephone (978) 640-6222

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 ☐

The number of shares outstanding of registrant's common stock at December 31, 2004 was 12,205,236 shares.

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PART I. Financial Information

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Consolidated Condensed Balance Sheets -
November 30, 2004 and May 31, 2004

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PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS SOFTECH, INC. AND SUBSIDIARIES

----- CONSOLIDATED CONDENSED BALANCE SHEETS -----

	(dollars in thousands)	
	November 30, 2004	May 31, 2004
	-----	-----
ASSETS		

Cash and cash equivalents	\$ 435	\$ 275
Accounts receivable, net	1,710	2,175
Prepaid expenses and other assets	243	244
	-----	-----
Total current assets	2,388	2,694
	-----	-----
Property and equipment, net	172	199
Capitalized software costs, net	6,005	7,043
Identifiable intangible assets, net	367	550
Goodwill, net	4,606	4,598
Notes receivable	134	134

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Other assets	111	115
	-----	-----
TOTAL ASSETS	\$ 13,783	\$ 15,333
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Accounts payable	\$ 253	\$ 205
Accrued expenses	1,276	1,575
Deferred maintenance revenue	3,136	3,941
Current portion of long term debt	1,293	1,293
	-----	-----
Total current liabilities	5,958	7,014
	-----	-----
Long-term debt, net of current portion	12,982	12,917
	-----	-----
Stockholders' deficit	(5,157)	(4,598)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 13,783	\$ 15,333
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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SOFTECH, INC. AND SUBSIDIARIES ----- CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS -----

	(in thousands, except for per share amounts)	
	Three Months Ended	
	November 30,	November
	2004	2003
	-----	-----
Revenue		
Products	\$ 687	\$ 8
Services	2,534	2,4
	-----	-----
Total revenue	3,221	3,3

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Cost of products sold	18	
Cost of services provided	409	4
	-----	-----
Gross margin	2,794	2,8
Research and development expenses	674	7
Selling, general and administrative	1,384	1,4
Amortization of capitalized software and other intangible assets	610	6
	-----	-----
Income from operations before interest expense	126	
Interest expense	216	2
	-----	-----
Net loss	\$ (90)	\$ (2)
	=====	=====
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.
Weighted average common shares outstanding	12,205	12,2

See accompanying notes to consolidated condensed financial statements.

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SOFTECH, INC. AND SUBSIDIARIES ----- CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS -----

(in thousands, except for per share amounts)
Six Months Ended

	November 30, 2004	November 2003
	-----	-----
Revenue		
Products	\$ 1,105	\$ 1,4
Services	4,893	4,8
	-----	-----
Total revenue	5,998	6,2
Cost of products sold	27	

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Cost of services provided	798	9
Gross margin	5,173	5,3
Research and development expenses	1,351	1,4
Selling, general and administrative	2,684	2,9
Amortization of capitalized software and other intangible assets	1,221	1,2
Loss from operations before interest expense	(83)	(2
Interest expense	466	5
Net loss	\$ (549)	\$ (7
Basic and diluted net loss per common share	\$ (0.04)	\$ (0.
Weighted average common shares outstanding	12,205	12,2

See accompanying notes to consolidated condensed financial statements.

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SOFTECH, INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	(dollars in thousands) Six Months Ended	
	November 30, 2004	November 2003
Cash flows from operating activities:		
Net loss	\$ (549)	\$ (7
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	1,262	1,3
Change in current assets and liabilities:		
Accounts receivable	465	3
Prepaid expenses and other assets	(16)	(6
Accounts payable and accrued expenses	(165)	(8
Deferred maintenance revenue	(805)	(8
Total adjustments	741	1

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Net cash provided (used) by operating activities	192	(5)
	-----	-----
Cash flows used by investing activities:		
Payments for business acquisition, net of cash acquired	(86)	
Capital expenditures	(11)	
	-----	-----
Net cash used by investing activities	(97)	
	-----	-----
Cash flows from financing activities:		
Principal payments under capital lease obligations	-	
Proceeds from line of credit agreements, net	65	2
	-----	-----
Net cash provided by financing activities	65	2
	-----	-----
Increase (decrease) in cash and cash equivalents	160	(3)
Cash and cash equivalents, beginning of period	275	6
	-----	-----
Cash and cash equivalents, end of period	\$ 435	\$ 3
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(A) The consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission from the accounts of SofTech, Inc. and its wholly owned subsidiaries (the "Company") without audit; however, in the opinion of management, the information presented reflects all adjustments which are of a normal recurring nature and elimination of intercompany transactions which are necessary to present fairly the Company's financial position and results of operations. It is recommended that these consolidated condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's fiscal year 2004 Annual Report on Form 10-KSB.

(B) SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION:

The Company has adopted the provisions of Statement of Position No.

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97-2, "Software Revenue Recognition" (SOP 97-2) as amended by SOP No. 98-9, "Modifiaction of SOP 97-2 Software Revenue Recognition with Respect to Certain Transactions" (SOP 98-9) in recognizing revenue from software transactions. Revenue from software license sales are recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, and a fixed fee and collectibility has been determined. The company does not provide for a right of return. For multiple element arrangements, total fees are allocated to each of the elements using the residual method. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements. Revenue from engineering, consulting and training services is recognized as those services are rendered.

CAPITALIZED SOFTWARE COSTS AND RESEARCH AND DEVELOPMENT:

The Company capitalizes certain costs incurred to internally develop and/or purchase software that is licensed to customers. Capitalization of internally developed software begins upon the establishment of technological feasibility. Costs incurred prior to the establishment of technological feasibility are expensed as incurred. Purchased software is recorded at cost. The Company evaluates the realizability and the related periods of amortization on a regular basis. Such costs are amortized over estimated useful lives ranging from three to ten years. The Company did not capitalize any internally developed software during the three and six month periods ended November 30, 2004 or 2003. Amortization expense related to capitalized software costs for the six month periods ended November 30, 2003 and 2004 were \$1,225,000 and \$1,221,000, respectively.

ACCOUNTING FOR GOODWILL AND OTHER INTANGIBLE ASSETS

Effective June 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. This statement affects the Company's treatment of goodwill and other intangible assets. This statement requires that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified within the statement's criteria. Intangible assets with finite useful lives will continue to be amortized over those periods. Amortization of goodwill ceased as of May 31, 2002.

The Company completed the first step of the transitional goodwill impairment test during the three months ended November 30, 2002 based on the amount of goodwill as of the beginning of fiscal year 2003, as required by SFAS No. 142. Based on the results of the first step of the transitional goodwill impairment test, the Company has determined that the fair value exceeded the carrying amounts and, therefore, no goodwill impairment existed as of June 1, 2002.

The Company tested the goodwill for impairment as of May 31, 2004 and concluded, based on actual results for fiscal 2004 and projected cash flows, that no impairment existed as of May 31, 2004.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

LONG-LIVED ASSETS:

The Company periodically reviews the carrying value of all intangible assets with a finite life (primarily capitalized software costs) and other long-lived assets. If indicators of impairment exist, the Company compares the undiscounted cash flows estimated to be generated by those assets over their estimated economic life to the related carrying value of those assets to determine if the assets are impaired. If the carrying value of the asset is greater than the estimated undiscounted cash flows, the carrying value of the assets would be decreased to their fair value through a charge to operations. The Company does not have any long-lived assets it considers to be impaired. The Company has determined that all of its intangible assets (other than goodwill) have finite lives and, therefore, the Company has continued to amortize its intangible assets.

STOCK BASED COMPENSATION

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Because the number of shares is known and the exercise price of options granted has been equal to fair value at date of grant, no compensation expense has been recognized in the statements of operations. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148 "Accounting for Stock-Based Compensation - An Amendment of SFAS No. 123." Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under these plans, consistent with the methodology prescribed under SFAS 123, the Company's net loss and loss per share would have approximated the pro forma amounts indicated below:

(in thousands, except per share data)	Three Month Periods Ended November 30,	
	2004	2003
Net loss - as reported	\$ (90)	\$ (246)
Stock based compensation determined under fair value based method	(3)	(8)
Net loss - pro forma	(93)	(254)
Loss per share - diluted - as reported	(.01)	(.02)
Loss per share - diluted - pro forma	(.01)	(.02)

(in thousands, except per share data)	Six Month Periods Ended November 30,	
	2004	2003
Net loss - as reported	\$ (549)	\$ (724)
Stock based compensation determined under fair value based method	(5)	(16)
Net loss - pro forma	(554)	(740)
Loss per share - diluted - as reported	(.04)	(.06)
Loss per share - diluted - pro forma	(.04)	(.06)

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FOREIGN CURRENCY TRANSLATION:

The functional currency of the Company's foreign operations (France, Germany and Italy) is the local currency. As a result, assets and liabilities are translated at period-end exchange rates and revenues and expenses are translated at the average exchange rates. Adjustments resulting from translation of such financial statements are classified in accumulated other comprehensive income (loss). Foreign currency gains and losses arising from transactions are included in the statement of operations.

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SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates included in the financial statements are the valuation of long term assets including intangibles (goodwill, capitalized software and other intangible assets), deferred tax assets and the allowance for doubtful accounts. Actual results could differ from those estimates.

RECLASSIFICTIONS:

Certain amounts in fiscal 2004 have been reclassified to conform with the presentation in fiscal 2005.

(C) LIQUIDITY

The Company ended the first half of fiscal 2005 with cash of \$435,000, an increase of \$160,000 from May 31, 2004. Operating activities provided \$192,000 of cash during the first six months of the fiscal year. The net loss adjusted for non-cash expenditures related to amortization and depreciation together with a decrease in accounts receivable generated cash of about \$1,178,000. The reduction in accounts payable and accrued expenses used cash of \$165,000 and the cyclical reduction in deferred revenue utilized cash of \$805,000 during the first half of the fiscal year. In addition, during the first half of fiscal 2005 the Company borrowed \$65,000 in excess of its debt repayments from its line of credit and paid former WTC shareholders that tendered their shares a total of \$86,000. Lastly, the Company purchased approximately \$11,000 of capital equipment.

Although the Company believes its current cost structure together with reasonable revenue run rates based on historical performance will generate positive cash flow for the full fiscal year 2005, the current economic environment, although showing signs of improvement, makes forecasting revenue based on historical models difficult and somewhat

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unreliable.

The Company believes that the cash on hand together with cash flow from operations and its available borrowings under its credit facility will be sufficient for meeting its liquidity and capital resource needs for the next year. At November 30, 2004, the Company had available borrowings on its debt facilities of approximately \$3.4 million.

(D) BALANCE SHEET COMPONENTS

Details of certain balance sheet captions are as follows (000's):

	November 30, 2004	May 31, 2004
	-----	-----
Property and equipment	\$ 3,912	\$ 3,867
Accumulated depreciation and amortization	(3,740)	(3,668)
	-----	-----
Property and equipment, net	\$ 172	\$ 199
	-----	-----
Common stock, \$.10 par value	\$ 1,274	\$ 1,274
Capital in excess of par value	19,544	19,544
Accumulated deficit	(24,173)	(23,624)
Cumulative translation adjustment	(241)	(231)
Less treasury stock	(1,561)	(1,561)
	-----	-----
Stockholders' deficit	\$ (5,157)	\$ (4,598)
	-----	-----

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SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(E) LOSS PER SHARE

Basic net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common and equivalent dilutive common shares outstanding. Options to purchase shares of common stock have been excluded from the denominator for the computation of diluted earnings per share for all periods presented in fiscal 2005 and 2004 because their inclusion would be antidilutive. The weighted average shares outstanding for each of the income statements included in this filing are presented below (000's):

Three Month and Six Month Periods	
Ended November 30,	
2004	2003
-----	-----

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Basic weighted average shares outstanding	12,205	12,205
Effect of employee stock options outstanding	--	--
	-----	-----
	12,205	12,205
	=====	=====

(F) COMPREHENSIVE LOSS

The Company's comprehensive loss includes accumulated foreign currency translation adjustments and unrealized gain (loss) on marketable securities. For the three and six month periods ended November 30, 2004 and 2003, the comprehensive loss was as follows (000's):

	Three Month Periods Ended November 30,	
	2004	2003
	-----	-----
Net loss	\$ (90)	\$ (246)
Changes in:		
Foreign currency translation adjustment	--	(45)
	-----	-----
Comprehensive loss	\$ (90)	\$ (291)
	=====	=====
	Six Month Periods Ended November 30,	
	2004	2003
	-----	-----
Net loss	\$ (549)	\$ (724)
Changes in:		
Foreign currency translation adjustment	(10)	(79)
	-----	-----
Comprehensive loss	\$ (559)	\$ (803)
	=====	=====

(G) SEGMENT INFORMATION

The Company operates in one reportable segment and is engaged in the development, marketing, distribution and support of CAD/CAM and Product Data Management computer solutions. The Company's operations are organized geographically with foreign offices in France, Germany and Italy. Components of revenue and long-lived assets (consisting primarily of intangible assets, capitalized software and property, plant and equipment) by geographic location, are as follows (000's):

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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	Three Months Ended November 30, 2004	Three Months Ended November 30, 2003
Revenue:		
North America	\$ 2,195	\$ 2,595
Asia	325	260
Europe	750	698
Eliminations	(49)	(243)
Consolidated Total	\$ 3,221	\$ 3,310
	Six Months Ended November 30, 2004	Six Months Ended November 30, 2003
Revenue:		
North America	\$ 4,275	\$ 4,906
Asia	543	449
Europe	1,248	1,170
Eliminations	(68)	(272)
Consolidated Total	\$ 5,998	\$ 6,253
	November 30, 2004	May 31, 2004
Long Lived Assets:		
North America	\$11,212	\$12,445
Europe	183	194
Consolidated Total	\$11,395	\$12,639

(H) NEW ACCOUNTING PRONOUNCEMENTS:

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment," which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS No. 123(R) is effective for public companies for interim or annual periods beginning after June 15, 2005. The Company is currently evaluating the impact that this statement will have on its financial condition or results of operations.

On December 31, 2002, the FASB issued Statement No. 148 (SFAS 148), Accounting for Stock-Based Compensation -- Transition and Disclosure, amending FASB Statement No. 123 (SFAS 123), Accounting for Stock-Based Compensation. This Statement amends SFAS 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS 148 amends APB Opinion No. 28,

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Interim Financial Reporting, to require disclosure about those effects in interim financial information. The Company has complied with the disclosure provisions in these financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset

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SOFTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

retirement obligation in the period in which it is incurred. When the liability is initially recorded, an entity capitalizes a cost by increasing the carrying amount of the long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002. The Adoption of SFAS No. 143 effective June 1, 2003 did not have a material effect on the financial position or results of operations of the Company.

In April 2003, FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", which is effective for contracts entered into or modified after June 30, 2003. This Statement amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities for the purpose of improving financial reporting by requiring contracts with comparable characteristics to be accounted for similarly. The adoption of SFAS No. 149 effective July 1, 2003 did not have a material impact on the Company's financial position or results of operations.

In May 2003, FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS No. 150 did not have a material impact on the Company's financial position or results of operations.

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SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

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The statements made below with respect to SofTech's outlook for fiscal 2005 and beyond represent "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 and are subject to a number of risks and uncertainties. These include, among other risks and uncertainties, general business and economic conditions, generating sufficient cash flow from operations to fund working capital needs, continued integration of acquired entities, potential obsolescence of the Company's technologies, maintaining existing relationships with the Company's lenders, successful introduction and market acceptance of planned new products and the ability of the Company to attract and retain qualified personnel both in our existing markets and in new territories in an extremely competitive environment.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

The Securities and Exchange Commission ("SEC") issued disclosure guidance for "critical accounting policies." The SEC defines "critical accounting policies" as those that require the application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company's significant accounting policies are described in Note B to these financial statements. The Company believes that the following accounting policies require the application of management's most difficult, subjective or complex judgments:

REVENUE RECOGNITION

The Company has adopted the provisions of Statement of Position No. 97-2, "Software Revenue Recognition" (SOP 97-2) as amended by SOP No. 98-9, "Modification of SOP 97-2 Software Revenue Recognition with Respect to Certain Transactions" (SOP 98-9) in recognizing revenue from software transactions. Revenue from software license sales are recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, and a fixed fee and collectibility has been determined. The company does not provide for a right of return. For multiple element arrangements, total fees are allocated to each of the elements using the residual method. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements. Revenue from engineering, consulting and training services is recognized as those services are rendered.

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS

We assess the recoverability of long-lived assets and intangible assets whenever we determine that events or changes in circumstances indicate that their carrying amount may not be recoverable. Our assessment is primarily based upon our estimate of future cash flows associated with these assets. These valuations contain certain assumptions concerning estimated future revenues and future expenses for each of our two reporting units. We have determined that there is no indication of impairment of any of our assets. However, should our operating results deteriorate, we may determine that some portion of our long-lived assets or intangible assets are impaired. Such determination could result in non-cash charges to income that could materially affect our financial position or results of operations for that period.

VALUATION OF GOODWILL

Effective June 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. This statement affects the Company's treatment of goodwill and other intangible assets. This statement requires that

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goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified within the statement's criteria. Intangible assets with finite useful lives will continue to be amortized over those periods. Amortization of goodwill and intangible assets with indeterminable lives ceased as of June 1, 2002.

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SOFTECH, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

The Company completed the first step of the transitional goodwill impairment test during the three months ended November 30, 2002 based on the amount of goodwill as of the beginning of fiscal year 2003, as required by SFAS No. 142. Based on the results of the first step of the transitional goodwill impairment test, the Company has determined that the fair value exceeded the carrying amount and, therefore, no goodwill impairment existed as of June 1, 2002. As a result, the second step of the transitional goodwill impairment test was not required to be completed. The Company tested the goodwill for impairment at May 31, 2004 and concluded based on actual results for fiscal 2004 and projected cash flows that no impairment existed as of May 31, 2004. The Company will be required to continue to perform a goodwill impairment test on an annual basis. This valuation contains certain assumptions concerning estimated future revenues and expenses. Should our operating results deteriorate, we may determine that some portion of our goodwill or all of our goodwill is impaired. Such determination could result in non-cash charges to income that could materially affect our results of operations for that period.

ESTIMATING ALLOWANCES FOR DOUBTFUL ACCOUNTS RECEIVABLE

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of any of our significant customers could have a material adverse effect on the collectibility of our accounts receivable and our future operating results.

VALUATION OF DEFERRED TAX ASSETS

We regularly evaluate our ability to recover the reported amount of our deferred income taxes considering several factors, including our estimate of the likelihood of the Company generating sufficient taxable income in future years during the period over which temporary differences reverse. The Company's deferred tax assets are currently fully reserved.

RESULTS OF OPERATIONS

Revenue for the three and six month periods ended November 30, 2004 was \$3.2

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million and \$6.0 million, respectively, as compared to \$3.3 million and \$6.3 million for the same periods in the prior fiscal year. This represents a decrease of 2.7% for fiscal 2005 Q2 and 4.1% for the first half of fiscal 2005 as compared to the same periods in fiscal 2004. Reduced product revenue was responsible for the decrease in both periods which were partially offset by increased services revenue.

Product revenue for the three and six month periods ended November 30, 2004 was approximately \$687,000 and \$1.1 million, respectively, as compared to \$868,000 and \$1.5 million for the same periods in the prior fiscal year. This represents a decrease of 20.9% for fiscal 2005 Q2 and 23.8% for the first half of fiscal 2005 as compared to the same periods in fiscal 2004. The primary reason for the reduced product revenue for both the three and six month periods ended November 30, 2004 was related to our ProductCenter technology offering. We continue to experience increased interest from customers for this technology, however, the sales cycle continues to extend. While this increased pre-sale activity signals increased licensing activity for this product line in the future, it continues to be difficult to predict the timing of order receipt.

Service revenue for the three and six month periods ended November 30, 2004 was \$2.5 million and \$4.9 million, respectively, as compared to \$2.4 million and \$4.8 million for the same period in fiscal 2004. This represents an increase of 3.8% for fiscal 2005 Q2 as compared to the same period in fiscal 2004 and an increase of 1.9% for the first half of fiscal 2005 compared to the same period in fiscal 2004. Our consulting and training revenue increased 59.9% and 54.1% for the three and six month periods ended November 30, 2004, respectively, as compared to the same periods in the prior year. This increase more than offset a small decrease in maintenance revenue for the same periods.

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SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Revenue generated in the U.S. accounted for 67% and 70% of total revenue for the three and six month periods ended November 30, 2004, respectively, as compared to 71% and 74% of total revenue for the same periods in the previous year. Revenue generated in Europe for the three and six month periods ended November 30, 2004 was 23% and 21% of total revenue, respectively, as compared to 21% and 19% of total revenue for the same period in fiscal 2004. Revenue generated in Asia for the three and six month periods ended November 30, 2004 was 10% and 9% of total revenue, respectively, as compared to 8% and 7% of total revenue for the same period in fiscal 2004. Revenue generated in the U.S. decreased by about 9% for both the three and six month periods ended November 30, 2004 as compared to the same periods in the prior fiscal year. Revenue generated in Europe increased by about 7% in each of the three and six month periods ended November 30, 2004 and revenue generated in Asia increased about 25% and 21%, respectively, for the same periods. It is our expectation that revenue from Asia and Europe will continue to make up a significant portion of our total revenue.

Gross margin as a percentage of revenue was 86.7% and 86.3 % for the three and six month periods ended November 30, 2004, respectively, as compared to 84.8% and 85.1% for the same periods in fiscal 2004. This increase in gross margin as a percent of revenue in fiscal 2005 as compared to the same period in fiscal 2004 is due to reductions in headcount over the last year in our customer support functions.

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Research and development expenses ("R&D") were \$674,000 and \$1.35 million for the three and six month periods ended November 30, 2004, respectively, as compared to \$741,000 and \$1.41 million for the same periods in the prior fiscal year. These small decreases are the result of a slight reduction in headcount resulting from efficiencies garnered from combining the development resources of our product lines.

Selling, general and administrative ("SG&A") expenses were \$1.38 million and \$2.68 million, respectively, for the three and six month periods ended November 30, 2004 as compared to \$1.45 million and \$2.91 million for the same period in fiscal 2004. This represents a decrease of approximately 4.8% and 7.6% for the three and six month periods ended November 30, 2004, respectively, as compared to the same periods in the prior fiscal year. The decreases are related to the reduction in headcount over the last year as efficiencies were realized from the combination of our SG&A organization subsequent to the acquisition of WTC in fiscal 2002.

The non-cash expenses related to the amortization of capitalized software and other intangible assets were \$.6 million and \$1.2 million for the three and six month periods ended November 30, 2004 and 2003.

Interest expense for the three and six month periods ended November 30, 2004 were approximately \$216,000 and \$466,000, respectively, as compared to \$249,000 and \$502,000 for the same periods in fiscal 2004. This represents a decrease of 13.3% for the second quarter of fiscal 2005 compared to the same period in the previous fiscal year and a decrease of 7.2% for the six month period ended November 30, 2004 compared to the same period in the prior fiscal year. The average borrowings decreased to approximately \$14.2 million during the current quarter as compared to \$14.3 million for the same period in fiscal 2004, however, the interest rate on those borrowings decreased to about 6.1% in the current quarter from 7.0% for the same period in fiscal 2004. The average borrowings decreased to approximately \$14.2 million during the first half of fiscal 2005 as compared to \$14.3 million for the same period in fiscal 2004, however, the interest rate on those borrowings decreased to about 6.6% during the first half of fiscal 2005 as compared to 7.0% for the same period in fiscal 2004. The interest rate on our debt was reduced to approximately 6.0% from 7.0% at the beginning of the second quarter of fiscal 2005.

The net loss for the three and six month periods ended November 30, 2004 was \$(90,000) and \$(549,000), respectively, as compared to a net loss of \$(246,000) and \$(724,000) for the same period in the prior fiscal year. The loss per share for each of the three month periods ended November 30, 2004 was \$(.01) and \$(.04), respectively, as compared to \$(.02) and \$(.06) for the same periods in the prior fiscal year.

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SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

CAPITAL RESOURCES AND LIQUIDITY

The Company ended the first half of fiscal 2005 with cash of \$435,000, an increase of \$160,000 from May 31, 2004. Operating activities provided \$192,000 of cash during the first six months of the fiscal year. The net loss adjusted for non-cash expenditures related to amortization and depreciation together with

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a decrease in accounts receivable generated cash of about \$1,178,000. The reduction in accounts payable and accrued expenses used cash of \$165,000 and the cyclical reduction in deferred revenue utilized cash of \$805,000 during the first half of the fiscal year. In addition, during the first half of fiscal 2005 the Company borrowed \$65,000 in excess of its debt repayments from its line of credit and paid former WTC shareholders that tendered their shares a total of \$86,000. Lastly, the Company purchased approximately \$11,000 of capital equipment.

Although the Company believes its current cost structure together with reasonable revenue run rates based on historical performance will generate positive cash flow in fiscal 2005, the current economic environment especially in the manufacturing sector makes forecasting revenue based on historical models difficult and somewhat unreliable.

The Company believes that the cash on hand together with cash flow from operations and its available borrowings under its credit facility will be sufficient for meeting its liquidity and capital resource needs for the next year. At November 30, 2004, the Company had available borrowings on its debt facilities of approximately \$3.4 million.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company's business is subject to many uncertainties and risks. This Form 10-QSB also contains certain forward-looking statements within the meaning of the Private Securities Reform Act of 1995. The Company's future results may differ materially from its current results and actual results could differ materially from those projected in the forward looking statements as a result of certain risk factors, including but not limited to those set forth below, other one-time events and other important factors disclosed previously and from time to time in the Company's other filings with the SEC.

OUR QUARTERLY RESULTS MAY FLUCTUATE. The Company's quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. Our quarterly revenue may fluctuate significantly for several reasons, including: the timing and success of introductions of our new products or product enhancements or those of our competitors; uncertainty created by changes in the market; difficulty in predicting the size and timing of individual orders; competition and pricing; and customer order deferrals as a result of general economic decline. Furthermore, the Company has often recognized a substantial portion of its product revenues in the last month of a quarter, with these revenues frequently concentrated in the last weeks or days of a quarter. As a result, product revenues in any quarter are substantially dependent on orders booked and shipped in the latter part of that quarter and revenues from any future quarter are not predictable with any significant degree of accuracy. We typically do not experience order backlog. For these reasons, we believe that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

WE MAY NOT GENERATE POSITIVE CASH FLOW IN THE FUTURE. During fiscal years 1998 through 2001 we generated significant cash losses from operations. The Company took aggressive cost cutting steps and reorganized its operations at the beginning of fiscal 2002. These actions have greatly reduced our fixed costs and resulted in positive cash flow from operations for the last three full fiscal years and for the first half of fiscal 2005. It is our expectation that we can continue to improve on our recent success, however, there can be no assurances that the Company will continue to generate positive cash in the future.

CONTINUED DECLINE IN BUSINESS CONDITIONS AND INFORMATION TECHNOLOGY (IT) SPENDING COULD CAUSE FURTHER DECLINE IN REVENUE. The level of future IT spending remains very uncertain as does the prognosis for an economic recovery in the

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manufacturing sector. If IT spending continues to decline and the manufacturing sector continues to experience economic difficulty, the Company's revenues could be adversely impacted.

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SOFTECH, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

THE COMPANY IS DEPENDENT ON ITS LENDER FOR CONTINUED SUPPORT. We have a very strong relationship with our sole lender, Greenleaf Capital. They currently represent our sole source of financing and it is our belief that it would be difficult to find alternative financing sources in the event whereby the relationship with Greenleaf changed.

THE CONTINUED INTEGRATION OF WTC MAY EXPERIENCE DIFFICULTY. Since acquiring WTC in December 2002, much progress has been made in integrating our operations, reducing redundant functions and consolidating our facilities. The strategy includes more closely integrating our technologies and offering our combined customer base these solutions. The strategy also includes translating ProductCenter for users other than the U.S. English speaking market. There can be no assurance that this continued integration of our technologies or offering ProductCenter outside the U.S. will be successful.

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SOFTECH, INC. AND SUBSIDIARIES

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Operating Officer is responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officer has concluded (based upon his evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officer also has indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) Reports on Form 8-K

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The Company filed a Form 8-K on October 15, 2004 related to its press release announcing first quarter results for fiscal 2005.

SIGNATURES

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

SOFTECH, INC.

Date: January 14, 2004

/s/ Joseph P. Mullaney

Joseph P. Mullaney
President
Chief Operating Officer

eft" nowrap valign="bottom" width="1%"> 20,940 42,482 42,210

Research and development expenses

4,750 4,102 9,067 8,222

Restructuring charge – Note I

113 — 263 —

Operating earnings

13,784 7,902 22,165 12,850

Other (expense) income:

Interest expense

(1,058) (681) (2,117) (1,372)

Interest income

380 486 858 965

Other

(342) (232) 405 154

Total other expense

(1,020) (427) (854) (253)

Earnings before income taxes

12,764 7,475 21,311 12,597

Income tax expense

2,807 1,570 4,688 2,646

Net earnings

\$9,957 \$5,905 \$16,623 \$9,951

Net earnings per share - Note J

Basic

\$0.30 \$0.16 \$0.49 \$0.28

Diluted

\$0.27 \$0.15 \$0.45 \$0.26

Cash dividends declared per share

\$0.03 \$0.03 \$0.06 \$0.06

Average common shares outstanding:

Basic

	33,652	35,824	33,748	35,824
Diluted	38,090	40,302	38,209	40,355

See notes to unaudited condensed consolidated financial statements.

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CTS CORPORATION AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands of dollars)

	June 29, 2008	December 31, 2007*
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 45,370	\$ 52,868
Accounts receivable, less allowances (2008 - \$1,095; 2007 - \$1,304)	110,521	100,655
Inventories, net - Note D	86,559	73,778
Other current assets	24,226	23,539
Total current assets	266,676	250,840
Property, plant and equipment, less accumulated depreciation (2008 - \$266,849; 2007 - \$266,261)	96,285	92,825
Other Assets		
Prepaid pension asset - Note F	112,097	107,158
Goodwill	30,943	24,657
Other intangible assets, net	38,572	36,743
Deferred income taxes	29,914	30,237
Other	1,242	1,232
Total other assets	212,768	200,027
Total Assets	\$ 575,729	\$ 543,692
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable	\$ —	\$ 1,000
Accounts payable	85,658	84,217
Accrued liabilities	46,599	43,702
Total current liabilities	132,257	128,919
Long-term debt - Note E	92,300	72,000
Other long-term obligations	17,314	18,526
Shareholders' Equity		
Preferred stock - authorized 25,000,000 shares without par value; none issued	—	—
Common stock - authorized 75,000,000 shares without par value; 54,024,091 shares issued at June 29, 2008 and 53,919,733 shares issued at December 31, 2007	280,146	278,916
Additional contributed capital	28,668	28,563
Retained earnings	351,150	336,548
Accumulated other comprehensive loss	(29,325)	(29,808)
	630,639	614,219
Cost of common stock held in treasury (2008 – 20,298,259 shares and 2007 -19,606,459) – Note K	(296,781)	(289,972)
Total shareholders' equity	333,858	324,247
Total Liabilities and Shareholders' Equity	\$ 575,729	\$ 543,692

* The balance sheet at December 31, 2007, has been derived from the audited financial statements at that date.

See notes to unaudited condensed consolidated financial statements.

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CTS CORPORATION AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands of dollars)

	Six Months Ended	
	June 29, 2008	July 1, 2007
Cash flows from operating activities:		
Net earnings	\$ 16,623	\$ 9,951
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	12,806	11,552
Prepaid pension-asset – Note F	(4,999)	(4,466)
Amortization of retirement benefit adjustments – Note F	1,128	2,128
Equity-based compensation – Note B	1,729	1,636
Restructuring charge – Note I	(263)	—
Changes in working capital and other, net of effect of acquisitions	(14,721)	(5,336)
Net cash provided by operating activities	12,303	15,465
Cash flows from investing activities:		
Payment for acquisitions, net of cash received – Note C	(20,738)	—
Capital expenditures	(9,660)	(6,271)
Proceeds from sales of assets	46	45
Net cash used in investing activities	(30,352)	(6,226)
Cash flows from financing activities:		
Payments of long-term debt – Note E	(554,000)	(857)
Proceeds from borrowings of long-term debt – Note E	574,300	—
Payments of short-term notes payable	(4,974)	(5,026)
Proceeds from borrowings of short-term notes payable	3,974	1,107
Dividends paid	(2,039)	(2,145)
Purchase of treasury stock – Note K	(6,809)	(4,343)
Other	53	198
Net cash provided by (used in) financing activities	10,505	(11,066)
Effect of exchange rate on cash and cash equivalents	46	358
Net decrease in cash and cash equivalents	(7,498)	(1,469)
Cash and cash equivalents at beginning of year	52,868	38,630
Cash and cash equivalents at end of period	\$ 45,370	\$ 37,161
Supplemental cash flow information		
Cash paid during the period for:		
Interest	\$ 1,823	\$ 1,106
Income taxes – net	\$ 1,781	\$ 1,146

See notes to unaudited condensed consolidated financial statements.

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CTS CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(In thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Net earnings	\$ 9,957	\$ 5,905	\$ 16,623	\$ 9,951
Other comprehensive earnings:				
Cumulative translation adjustment	(276)	549	(103)	550
Amortization of retirement benefit adjustments (net of tax)	342	610	586	1,270
Comprehensive earnings	\$ 10,023	\$ 7,064	\$ 17,106	\$ 11,771

See notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 29, 2008

NOTE A - Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by CTS Corporation (CTS or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated interim financial statements should be read in conjunction with the financial statements, notes thereto, and other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

The accompanying unaudited condensed consolidated interim financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring items) necessary for a fair statement, in all material respects, of the financial position and results of operations for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates. The results of operations for the interim periods are not necessarily indicative of the results for the entire year.

Certain reclassifications have been made for the periods presented in the unaudited condensed consolidated financial statements to conform to the classifications adopted in 2008.

NOTE B - Equity-Based Compensation

At June 29, 2008, CTS had four equity-based compensation plans: the 1996 Stock Option Plan ("1996 Plan"), the 2001 Stock Option Plan ("2001 Plan"), the Nonemployee Directors' Stock Retirement Plan ("Directors' Plan"), and the 2004 Omnibus Long-Term Incentive Plan ("2004 Plan"). As of December 2004, additional grants can only be made under the 2004 Plan. CTS believes that equity-based awards align the interest of employees with those of its shareholders.

The 2004 Plan, and previously the 1996 Plan and 2001 Plan, provides for grants of incentive stock options or nonqualified stock options to officers, key employees, and nonemployee members of CTS' board of directors. In addition, the 2004 Plan allows for grants of stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and other stock awards.

The following table summarizes the compensation expense included in the Unaudited Condensed Consolidated Statements of Earnings for the three and six-month periods ended June 29, 2008 and July 1, 2007 relating to equity-based compensation plans:

(\$ in thousands)	Three Months Ended		Six Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Stock options	\$ 42	\$ 58	\$ 91	\$ 236
Restricted stock units	802	441	1,606	1,316
Restricted stock	12	43	32	84
Total	\$ 856	\$ 542	\$ 1,729	\$ 1,636

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The following table summarizes plan status as of June 29, 2008:

	2004 Plan	2001 Plan	1996 Plan
Awards originally available	6,500,000	2,000,000	1,200,000
Stock options outstanding	313,850	755,063	240,100
Restricted stock units outstanding	682,308	—	—
Awards exercisable	251,105	755,063	240,100
Awards available for grant	5,101,052	—	—

Stock Options

Stock options are exercisable in cumulative annual installments over a maximum 10-year period, commencing at least one year from the date of grant. Stock options are generally granted with an exercise price equal to the market price of the Company's stock on the date of grant. The stock options generally vest over four years and have a 10-year contractual life. The awards generally contain provisions to either accelerate vesting or allow vesting to continue on schedule upon retirement if certain service and age requirements are met. The awards also provide for accelerated vesting if there is a change in control event.

The Company estimates the fair value of the stock option on the grant date using the Black-Scholes option-pricing model and assumptions for expected price volatility, option term, risk-free interest rate, and dividend yield. Expected price volatilities are based on historical volatilities of the Company's stock. The expected option term is derived from historical data on exercise behavior. The range of option terms shown below results from certain groups of employees exhibiting different behavior. The dividend yield is based on historical dividend payments. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of the status of stock options as of June 29, 2008 and July 1, 2007, and changes during the six-month periods then ended, is presented below:

	June 29, 2008		July 1, 2007	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	1,426,638	\$ 16.06	1,529,863	\$ 15.91
Granted	—	—	—	—
Exercised	(6,500)	8.32	(25,150)	8.96
Expired	(111,125)	33.11	(15,900)	29.64
Forfeited	—	—	(15,725)	12.29
Outstanding at end of period	1,309,013	\$ 14.65	1,473,088	\$ 15.92
Exercisable at end of period	1,234,488	\$ 14.77	1,314,501	\$ 16.37

The total intrinsic value of stock options exercised during the six-month periods ended June 29, 2008 and July 1, 2007 was \$14,000 and \$126,000, respectively. There were no options granted during the six-month periods ended June 29, 2008 or July 1, 2007.

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A summary of the weighted-average remaining contractual term and aggregate intrinsic value of options outstanding and exercisable at June 29, 2008 is presented below:

	Weighted-average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding	4.4 years	\$ 827
Options exercisable	4.2 years	\$ 827

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A summary of the nonvested stock options as of June 29, 2008 and July 1, 2007, and changes during the six-month periods then ended, is presented below:

	June 29, 2008		July 1, 2007	
	Options	Weighted-average Grant-Date Fair Value	Options	Weighted-average Grant-Date Fair Value
Nonvested at beginning of year	158,587	\$ 6.41	340,900	\$ 6.11
Granted	—	—	—	—
Vested	(84,062)	6.46	(166,588)	5.69
Forfeited	—	—	(15,725)	7.58
Nonvested at end of period	74,525 (1)	\$ 6.36	158,587	\$ 6.41

(1) Based on historical experience, CTS currently expects approximately 74,000 of these options to vest.

The total fair value of shares vested during the quarters ended June 29, 2008 and July 1, 2007 was approximately \$543,000 and \$857,000, respectively. As of June 29, 2008, there was \$75,000 of unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 1.1 years. CTS recognizes expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

The following table summarizes information about stock options outstanding at June 29, 2008:

Range of Exercise Prices	Number Outstanding at 6/29/08	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable At 6/29/08	Weighted-Average Exercise Price
\$ 7.70 – 11.11	783,863	5.15	\$ 9.44	750,838	\$ 9.37
13.68 – 16.24	227,800	5.24	14.12	186,300	14.22
23.00 – 33.63	249,100	2.50	24.82	249,100	24.82
35.97 – 79.25	48,250	1.87	49.23	48,250	49.23

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Service-Based Restricted Stock Units

Service-based restricted stock units (RSUs) entitle the holder to receive one share of common stock for each unit when the unit vests. RSUs are issued to officers and key employees as compensation. Generally, the RSUs vest over a period of three to five years. A summary of the status of RSUs as of June 29, 2008 and July 1, 2007, and changes during the six-month periods then ended is presented below:

	June 29, 2008		July 1, 2007	
	Weighted-average		Weighted-average	
	Grant-Date		Grant-Date	
	RSUs	Fair Value	RSUs	Fair Value
Outstanding at beginning of year	595,148	\$ 11.59	658,938	\$ 12.43
Granted	240,950	10.80	146,950	11.95
Converted	(135,180)	11.79	(170,437)	12.39
Forfeited	(18,610)	12.32	(53,683)	12.50
Outstanding at end of period	682,308	\$ 10.35	581,768	\$ 12.32
Weighted-average remaining contractual life	4.7 years		4.5 years	

As of June 29, 2008, there was \$4.3 million of unrecognized compensation cost related to nonvested RSUs. That cost is expected to be recognized over a weighted-average period of 1.4 years. CTS recognizes expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

Performance-Based Restricted Stock Units

On February 6, 2007, CTS granted performance-based restricted stock unit awards for certain executives. Executives received a total of 17,100 units based on achievement of year-over-year sales growth and free cash flow performance goals for fiscal year 2007. These units will cliff vest and convert one-for-one to CTS common stock on December 31, 2010.

On February 5, 2008, CTS granted performance-based restricted stock unit awards for certain executives. Vesting may occur, if at all, at a rate of 200% of the target amount of 42,200 in 2010 subject to certification of the 2008 and 2009 fiscal year results by CTS' independent auditors. Vesting is dependent upon CTS' achievement of sales growth targets.

CTS recorded compensation expense of approximately \$125,000 related to performance-based restricted stock units during the six-months ended June 29, 2008. As of June 29, 2008 there was \$ 382,000 of unrecognized compensation cost related to performance-based RSUs. That cost is expected to be recognized over a weighted-average period of 1.3 years.

Market-Based Restricted Stock Units

On July 2, 2007, CTS granted a market-based restricted stock unit award for an executive officer. An aggregate of 25,000 units may be earned in performance years ending in the following three consecutive years on the anniversary of the award date. Vesting may occur, if at all, at a rate of up to 150% of the target award on the end date of each performance period and is tied exclusively to CTS total stockholder return relative to 32 enumerated peer group companies' total stockholder return rates. The vesting rate will be determined using a matrix based on a percentile ranking of CTS total stockholder return with peer group total shareholder return.

On February 5, 2008, CTS granted market-based restricted stock unit awards for certain executives. Vesting may occur, if at all, at a rate of up to 200% of the target amount of 63,300 in 2010 subject to certification of the 2008 and 2009 fiscal year results by CTS' independent auditors. Vesting is dependent upon CTS' achievement of total stockholder return relative to 29 enumerated peer group companies' stockholder return rates.

CTS recorded compensation expense of approximately \$238,000 related to market-based restricted stock units during the six months ended June 29, 2008.

As of June 29, 2008 there was approximately \$1.0 million of unrecognized compensation cost related to market-based RSUs. That cost is expected to be recognized over a weighted average period of 1.5 years.

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Restricted Stock and Cash Bonus Plan

CTS' 1988 Plan originally reserved 2,400,000 shares of CTS' common stock for sale at market price, or award, to key employees. The 1988 Plan was concluded on June 27, 2008.

Stock Retirement Plan

The Directors' Plan provides for a portion of the total compensation payable to nonemployee directors to be deferred and paid in CTS stock. The Directors Plan was frozen effective December 1, 2004. All future grants will be from the 2004 Plan.

NOTE C – Acquisitions

In 2008, CTS acquired the following two entities for a total cost of \$20.7 million, net of cash received, which was paid in cash:

- Tusonix, Inc., based in Tucson, Arizona, a leader in the design and manufacture of ceramic electromagnetic interference and radio frequency interference (EMI/RFI) filters
- Orion Manufacturing, Inc., based in San Jose, California, a contract electronics manufacturer

CTS determined the preliminary purchase price allocations on the acquisitions based on estimates of the fair values of the assets acquired and liabilities assumed. These estimates were arrived at using recognized valuation techniques. CTS is in the process of determining values of certain assets. In addition, the Company is also analyzing historical net operating losses available for carryforward, limitations on those earnings in various taxing jurisdictions, and other facts and circumstances that will impact the final allocation of the purchase price to deferred income taxes. Accordingly, the allocation of the purchase price is subject to refinement. CTS expects to finalize the purchase price allocation by the end of 2008.

Goodwill recognized in those transactions amounted to \$6.3 million and is not deductible for tax purposes. \$5.5 million of goodwill was assigned to the EMS segment and \$0.8 million was assigned to the Components and Sensors segment.

NOTE D – Inventories, net

Inventories consist of the following:

(\$ in thousands)	June 29, 2008	December 31, 2007
Finished goods	\$ 11,301	\$ 9,592
Work-in-process	22,796	18,064
Raw materials	52,462	46,122
Total inventories	\$ 86,559	\$ 73,778

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NOTE E – Debt

Long-term debt was comprised of the following:

(\$ in thousands)	June 29, 2008	December 31, 2007
Revolving credit agreement weighted-average interest rate of 3.8% (2008) and 5.6% (2007) due in 2011	\$ 32,300	\$ 12,000
Convertible, senior subordinated debentures at a weighted-average interest rate of 2.125%, due in 2024	60,000	60,000
Total long-term debt	\$ 92,300	\$ 72,000

On June 27, 2006, CTS entered into a \$100 million, unsecured revolving credit agreement. Under the terms of the revolving credit agreement, CTS can expand the credit facility to \$150 million. There was \$32.3 million outstanding under the revolving credit agreement at June 29, 2008. Interest rates on the revolving credit agreement fluctuate based upon LIBOR and the Company's quarterly total leverage ratio. CTS pays a commitment fee on the undrawn portion of the revolving credit agreement. The commitment fee varies based on the quarterly leverage ratio and was 0.20 percent per annum at June 29, 2008. The revolving credit agreement requires, among other things, that CTS comply with a maximum total leverage ratio and a minimum fixed charge coverage ratio. Failure of CTS to comply with these covenants could reduce the borrowing availability under the revolving credit agreement. CTS was in compliance with all debt covenants at June 29, 2008.

Additionally, the revolving credit agreement contains restrictions relating to the amount of secured debt the Company can have outstanding, the amounts allowed for acquisitions or asset sales, and the amounts allowed for stock repurchases and dividend payments. The revolving credit agreement expires in June 2011.

CTS has \$60 million convertible senior subordinated debentures (2.125% Debentures). These unsecured debentures bear interest at an annual rate of 2.125%, payable semiannually on May 1 and November 1 of each year through the maturity date of May 1, 2024. The 2.125% Debentures are convertible, under certain circumstances, into CTS common stock at a conversion price of \$15.00 per share (which is equivalent to an initial conversion rate of approximately 66.6667 shares per \$1,000 principal amount of the notes). Upon conversion of the 2.125% Debentures, in lieu of delivering common stock, the Company may, at its discretion, deliver cash or a combination of cash and common stock.

The conversion price of the 2.125% Debentures will be adjusted if CTS completes certain transactions, including: distribution of shares as a dividend to substantially all shareholders; subdivision, combination or reclassification of its common stock; distribution of stock purchase warrants to substantially all shareholders; distribution of cash, stock or property to shareholders in excess of \$0.03 per share; or purchase of its common stock pursuant to a tender offer or exchange offer under certain circumstances.

Holders may convert the 2.125% Debentures at any time during a conversion period if the closing price of CTS common stock is more than 120% of the conversion price (\$18.00 per share) for at least 20 of the 30 consecutive trading days immediately preceding the first trading day of the conversion period. The conversion periods begin on February 15, May 15, August 15, and November 15 of each year. Holders may also convert the notes if certain corporate transactions occur. As of June 29, 2008, none of the conditions for conversion of the 2.125% million Debentures were satisfied.

CTS may, at its option, redeem all or a portion of the 2.125% Debentures for cash at any time on or after May 1, 2009, at a redemption price equal to the principal amount of the notes plus any accrued and unpaid interest at the redemption date. Holders may require CTS to purchase for cash all or part of their notes on May 1, 2009, 2014, and 2019, or upon the occurrence of certain events, at 100% of the principal amount of the notes plus accrued and unpaid interest up to, but not including, the date of purchase.

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NOTE F - Retirement Plans

Net pension (income) / postretirement expense for the three and six-month periods ended June 29, 2008 and July 1, 2007 includes the following components:

(\$ in thousands)	Three Months Ended		Six Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
PENSION PLANS				
Service cost	\$ 887	\$ 1,211	\$ 1,774	\$ 2,422
Interest cost	3,298	3,002	6,595	5,998
Expected return on plan assets (1)	(6,596)	(6,342)	(13,193)	(12,680)
Amortization of prior service cost	134	225	269	450
Amortization of loss	430	839	859	1,678
Net pension income	\$ (1,847)	\$ (1,065)	\$ (3,696)	\$ (2,132)

(1) Expected return on plan assets is net of expected investment expenses and certain administrative expenses.

(\$ in thousands)	Three Months Ended		Six Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
OTHER POSTRETIREMENT BENEFIT PLAN				
Service cost	\$ 5	\$ 5	\$ 10	\$ 11
Interest cost	92	84	184	167
Amortization of prior service cost	—	—	—	—
Amortization of (gain)/loss	—	—	—	—
Net postretirement expense	\$ 97	\$ 89	\$ 194	\$ 178

NOTE G - Segments

FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", requires companies to provide certain information about their operating segments. CTS has two reportable segments: 1) Electronics Manufacturing Services (EMS) and 2) Components and Sensors.

EMS includes the higher level assembly of electronic and mechanical components into a finished subassembly or assembly performed under a contract manufacturing agreement with an Original Equipment Manufacturer (OEM) or other contract manufacturer. Additionally, for some customers, CTS provides full turnkey manufacturing and completion including design, bill-of-material management, logistics, and repair.

Components and sensors are products which perform specific electronic functions for a given product family and are intended for use in customer assemblies. Components and sensors consist principally of automotive sensors and

actuators used in commercial or consumer vehicles; electronic components used in communications infrastructure and computer markets; terminators, including ClearONE™ terminators, used in computer and other high speed applications, switches, resistor networks, and potentiometers used to serve multiple markets.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in the Company's annual report on Form 10-K. Management evaluates performance based upon segment operating earnings before restructuring and related charges, interest expense, other non-operating income, and income tax expense.

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Summarized financial information concerning CTS' reportable segments is shown in the following table:

(\$ in thousands)	EMS	Components and Sensors	Total
Second Quarter of 2008			
Net sales to external customers	\$ 101,996	\$ 84,095	\$ 186,091
Segment operating earnings	3,684	10,212	13,896
Total assets	191,847	383,882	575,729
Second Quarter of 2007			
Net sales to external customers	\$ 98,833	\$ 70,791	\$ 169,624
Segment operating earnings	2,355	5,547	7,902
Total assets	176,358	357,761	534,119
First Six Months of 2008			
Net sales to external customers	\$ 196,964	\$ 161,882	\$ 358,846
Segment operating earnings	5,714	16,987	22,701
Total assets	191,847	383,882	575,729
First Six Months of 2007			
Net sales to external customers	\$ 192,559	\$ 140,323	\$ 332,882
Segment operating earnings	2,358	10,492	12,850
Total assets	176,358	357,761	534,119

Reconciling information between reportable segments' operating earnings and CTS' consolidated pre-tax income is shown in the following table:

(\$ in thousands)	Three Months Ended		Six Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Total segment operating earnings	\$ 13,896	\$ 7,902	\$ 22,701	\$ 12,850
Restructuring and related charges	(112)	—	(536)	—
Interest expense	(1,058)	(681)	(2,117)	(1,372)
Other income	38	254	1,263	1,119
Earnings before income taxes	\$ 12,764	\$ 7,475	\$ 21,311	\$ 12,597

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NOTE H -Contingencies

Certain processes in the manufacture of CTS' current and past products create hazardous waste by-products as currently defined by federal and state laws and regulations. CTS has been notified by the U.S. Environmental Protection Agency, state environmental agencies and, in some cases, generator groups, that it is or may be a Potentially Responsible Party regarding hazardous waste remediation at several non-CTS sites. In addition to these non-CTS sites, CTS has an ongoing practice of providing reserves for probable remediation activities at certain of its manufacturing locations and for claims and proceedings against CTS with respect to other environmental matters. In the opinion of management, based upon presently available information relating to all such matters, either adequate provision for probable costs has been made, or the ultimate costs resulting will not materially affect the consolidated financial position, results of operations, or cash flows of CTS.

Certain claims are pending against CTS with respect to matters arising out of the ordinary conduct of its business. For all claims, in the opinion of management, based upon presently available information, either adequate provision for anticipated costs has been made or the ultimate anticipated costs resulting will not materially affect CTS' consolidated financial position, results of operations or cash flows.

NOTE I – Restructuring

In November 2007, CTS announced plans to realign certain manufacturing operations and eliminate approximately 103 net positions during the fourth quarter of 2007. The realignment is intended to create synergies by further enhancing the Company's shared services model to include manufacturing support functions at its locations that serve more than one business. As of December 31, 2007, the realignment plans were substantially complete.

The following table displays the planned restructuring and restructuring-related charges associated with the realignment, as well as a summary of the actual costs incurred through June 29, 2008:

(\$ in millions)	Planned Costs	Actual incurred through June 29, 2008
Workforce reduction	\$ 1.7	\$ 1.5
Asset impairments	0.9	1.2
Restructuring charge	2.6	2.7
Equipment relocation	0.2	0.1
Other costs	0.2	0.4
Restructuring-related costs	0.4	0.5
Total restructuring and restructuring-related costs	\$ 3.0	\$ 3.2

The restructuring and restructuring-related costs incurred in the three and six-months ended June 29, 2008 were \$0.1 million and \$0.5 million, respectively.

Of the restructuring and restructuring-related costs incurred, \$0.9 million relates to the Components and Sensors segment and \$2.3 million relates to the EMS segment. Restructuring charges are reported on a separate line on the Unaudited Condensed Consolidated Statements of Earnings and the restructuring-related costs are included in cost of goods sold.

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The following table displays the restructuring reserve activity related to the realignment for the period ended June 29, 2008:

(\$ in millions)	
Restructuring liability at January 1, 2008	\$ 0.6
Restructuring and restructuring-related charges	0.2
Cost paid	\$ (0.7)
Restructuring liability at June 29, 2008	\$ 0.1

NOTE J - Earnings Per Share

FAS No. 128, "Earnings per Share", requires companies to provide a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations. The calculations below provide net earnings, average common shares outstanding, and the resultant earnings per share for both basic and diluted EPS for the three and six-month periods ended June 29, 2008 and July 1, 2007.

(\$ in thousands, except per share amounts)	Net Earnings (Numerator)	Shares (in thousands) (Denominator)	Per Share Amount
Second Quarter 2008			
Basic EPS	\$ 9,957	33,652	\$ 0.30
Effect of dilutive securities:			
Convertible debt	248	4,000	
Equity-based compensation plans	—	438	
Diluted EPS	\$ 10,205	38,090	\$ 0.27
Second Quarter 2007			
Basic EPS	\$ 5,905	35,824	\$ 0.16
Effect of dilutive securities:			
Convertible debt	251	4,000	
Equity-based compensation plans	—	478	
Diluted EPS	\$ 6,156	40,302	\$ 0.15
First Six Months of 2008			
Basic EPS	\$ 16,623	33,748	\$ 0.49
Effect of dilutive securities:			
Convertible debt	493	4,000	
Equity-based compensation plans	—	461	
Diluted EPS	\$ 17,116	38,209	\$ 0.45
First Six Months of 2007			
Basic EPS	\$ 9,951	35,824	\$ 0.28
Effect of dilutive securities:			
Convertible debt	502	4,000	
Equity-based compensation plans	—	531	

Diluted EPS	\$	10,453	40,355	\$	0.26
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The following table shows the potentially dilutive securities which have been excluded from the three and six-month periods ended June 29, 2008 and July 1, 2007 dilutive earnings per share calculation because they are either anti-dilutive, or the exercise price exceeds the average market price.

(Number of Shares in Thousands)	Three Months Ended		Six Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Stock options where the assumed proceeds exceeds the average market price	756	640	711	595

NOTE K – Treasury Stock

In June 2007, CTS' Board of Directors authorized a program to repurchase up to two million shares of common stock in the open market. The authorization expires on June 30, 2009. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During the first half of 2008, CTS repurchased 689,800 shares at a total cost of \$6.8 million, which completed this program.

In June 2008, CTS' Board of Directors authorized a program to repurchase up to one million shares of its common stock in the open market at a maximum price of \$13 per share. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes.

NOTE L – New Accounting Pronouncements

FAS No. 141(R), "Business Combinations"

In December 2007, the FASB issued FAS No. 141(R), "Business Combinations" ("FAS No. 141(R)"), which replaces FAS No. 141, "Business Combinations" ("FAS No. 141"). Although the general provisions of FAS No. 141 are maintained, FAS No. 141(R) effectively replaces FAS No. 141's cost allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. The requirements of FAS No. 141 resulted in not recognizing some assets and liabilities at the acquisition date, and it also resulted in measuring some assets and liabilities at amounts other than their fair values at the acquisition date. The provisions of FAS No. 141(R) were intended to resolve these issues and therefore, improve the relevance, completeness and representational faithfulness of the information provided. This statement is effective for prospective business combinations consummated in fiscal years beginning on or after December 15, 2008. CTS does not expect the provisions of FAS No. 141(R) to have a material impact on its consolidated financial statements.

FAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51"

In December 2007, the FASB issued FAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51" ("FAS No. 160"). Although FAS No. 160 retains the general accounting consolidation procedures regarding non-controlling interests, there are two key changes provided by FAS No. 160. First, accumulated losses attributable to such interests can exceed the original investment in the non-controlling interest. That is, a non-controlling interest can be in a debit position. Pro forma disclosures are required in the year of change. Second, such interests are a component of equity. Under current GAAP, such interests are normally included as either "mezzanine" (temporary) equity or liability. This statement is effective for CTS beginning January 1, 2009. CTS does not expect the provisions of FAS No. 160 to have a material impact on its consolidated financial statements.

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FASB Staff Position FAS 157-1, “Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13”

In February 2008, the FASB issued FASB Staff Position FAS 157-1 (“FSP FAS 157-1”). FSP FAS 157-1 removes leasing transactions accounted for under FAS No. 13 “Accounting for Leases” and related guidance from the scope of FAS No. 157 “Fair Value Measurements”. CTS has adopted FSP FAS 157-1 and the provisions do not have a material impact on its consolidated financial statements.

FASB Staff Position FAS 157-2, “Effective Date of FASB Statement No. 157”

In February 2008, the FASB issued FASB Staff Position FAS 157-2 (“FSP FAS 157-2”). FSP FAS 157-2 delays the effective date of FAS No. 157 “Fair Value Measurements” for all non-recurring fair value measurements of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. CTS has adopted FSP FAS 157-2 and the provisions do not have a material impact on its consolidated financial statements.

FAS No. 161, “Disclosure about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133”

In March 2008, the FASB issued FAS No. 161, “Disclosure about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (“FAS No. 161”). FAS No. 161 expands the disclosure requirements in FAS No. 133 “Accounting for Derivative Instruments and Hedging Activities”. This statement is effective for CTS beginning January 1, 2009. CTS does not expect the provisions to have a material impact on its consolidated financial statements.

FAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles”

In May 2008, the FASB issued FAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“FAS No. 162”). FAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (“GAAP”) in the United States (“the GAAP hierarchy”). The GAAP hierarchy provides for four categories of GAAP which include (in descending order of authority): (a) current pronouncements and its interpretations; (b) FASB technical bulletins and AICPA accounting and industry guides; (c) AICPA Practice bulletins and Emerging Issue Task Force Consensus (“EITFs”); and (d) FASB implementation guides. An entity is required to follow the accounting treatment specified by the accounting principle from the source in the highest category. This statement is effective for CTS 60 days following the SEC’s approval of the Public Company Accounting Oversight Board (“PCAOB”) amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles”. CTS does not expect the provisions to have a material impact on its consolidated financial statements.

FASB Staff Position APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”

In May 2008, the FASB issued FASB Staff Position APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (“FSP APB 14-1”). FSP APB 14-1 requires issuers of such instruments to separately account for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 should be applied retroactively to all past periods presented even if the instrument has matured, has been converted, or has otherwise been extinguished as of FSP APB 14-1’s effective date. FSP APB 14-1 is effective for CTS beginning January 1, 2009. CTS is currently evaluating the impact of FSP APB 14-1 on its financial statements.

FASB Staff Position FAS 142-3, “Determination of the Useful Life of Intangible Assets”

In April 2008, the FASB issued FASB Staff Position FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3") which amends the list of factors an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142"). FSP FAS 142-3 applies to intangible assets that are acquired individually or with a group of assets and intangible assets acquired in both business combinations and asset acquisitions. FSP FAS 142-3 removes the provision under FAS No. 142 that requires an entity to consider whether the renewal or extension can be accomplished without substantial cost or material modifications of the existing terms and conditions associated with the asset. Instead, FSP FAS 142-3 requires that an entity consider its own experience in renewing similar arrangements. An entity would consider market participant assumptions regarding renewal if no such relevant experience exists. FSP FAS 142-3 is effective for CTS beginning January 1, 2009. CTS does not expect the provisions to have a material impact on its consolidated financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

Overview

CTS Corporation ("we", "our" or "us") is a global manufacturer of components and sensors used primarily in the automotive, communications and computer markets. We also provide electronic manufacturing solutions, including design and supply chain management functions, primarily serving the communications, computer, industrial, medical and defense and aerospace markets under contract arrangements with the original equipment manufacturers ("OEMs"). Sales and marketing are accomplished through our sales engineers, independent manufacturers' representatives, and distributors.

In the first quarter of 2008, we acquired two entities for a total cost of \$20.7 million, net of cash received, which was paid in cash. In the Components and Sensors segment, Tusonix, Inc. ("Tusonix"), based in Tucson, Arizona, is a leader in the design and manufacture of ceramic electromagnetic interference and radio frequency interference (EMI/RFI) filters. In the EMS segment, Orion Manufacturing, Inc. ("Orion"), based in San Jose, California, is a contract electronics manufacturer.

As discussed in more detail throughout the MD&A:

- Sales increased by \$16.5 million, or 9.7%, in the second quarter of 2008 from the second quarter of 2007. Sales in the Components and Sensors segment increased by 18.8% compared to the second quarter of 2007, while sales in the EMS segment increased by 3.2% versus the second quarter of 2007. In the second quarter of 2008, sales in the EMS and Components and Sensors segments represented 54.8% and 45.2% of our total sales, respectively, compared to 58.3% and 41.7% respectively, in the second quarter of 2007.
- Gross margins, as a percent of sales, were 21.6% and 19.4% in the second quarter of 2008 and 2007, respectively, primarily resulting from favorable segment mix, favorable product mix and operational efficiencies.
- Selling, general and administrative and research and development expenses were 14.1% of total sales in the second quarter of 2008 compared to 14.8% of total sales in the second quarter of 2007. This decrease was driven by our ability to control expenses as sales increased.
- Income taxes for the six months ended June 29, 2008 were calculated using an estimated full-year rate of 22.0% compared to 21.0% for the six months ended July 1, 2007.
- Net earnings were \$10.0 million, or \$0.27 per diluted share, in the second quarter of 2008 compared with \$5.9 million, or \$0.15 per diluted share, in the second quarter of 2007.

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Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our unaudited condensed consolidated interim financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Management believes that judgment and estimates related to the following critical accounting policies could materially affect our consolidated financial statements:

- Estimating inventory valuation, the allowance for doubtful accounts, and other accrued liabilities
 - Valuation of long-lived and intangible assets, and depreciation/amortization periods
 - Income taxes
 - Retirement plans
 - Equity-based compensation

In the second quarter of 2008, there were no changes in the above critical accounting policies.

Results of Operations

Comparison of Second Quarter 2008 and Second Quarter 2007

Segment Discussion

Refer to Note G, "Segments", for a description of our segments.

The following table highlights the segment results for the three-month periods ended June 29, 2008 and July 1, 2007:

(\$ in thousands)	Components & Sensors	EMS	Consolidated Total
Second Quarter 2008			
Sales	\$ 84,095	\$ 101,996	\$ 186,091
Segment operating earnings	10,212	3,684	13,896
% of sales	12.1%	3.6%	7.5%
Second Quarter 2007			
Sales	\$ 70,791	\$ 98,833	\$ 169,624
Segment operating earnings	5,547	2,355	7,902
% of sales	7.8%	2.4%	4.7%

Sales in the Components and Sensors segment increased \$13.3 million, or approximately 18.8% from the second quarter of 2007, attributed primarily to increased automotive sensor and actuator product sales. Automotive product

sales are reflective of continuing double-digit growth of automotive sensor and actuator product sales in the Asia-Pacific region. Sales from the recently acquired Tusonix business represented \$4.2 million of the increase.

The Components and Sensors segment operating earnings increased \$4.7 million in the second quarter of 2008. The earnings increase resulted from the impact of higher sales, favorable product mix, lower operating expenses as a percent of sales, operational efficiencies and higher pension income, partially offset by operating expenses for the recently acquired Tusonix.

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The EMS segment recorded a sales increase of \$3.2 million, or 3.2%, in the second quarter of 2008 versus the second quarter of 2007. The increase in sales was attributable primarily to higher sales into the defense and aerospace and communications markets, partially offset by lower sales into the computer market. Lower computer market sales were expected due to certain products going to end of life and our emphasis on increasing sales into other markets. Sales from the recently acquired Orion business were \$9.4 million.

The EMS segment operating earnings improved \$1.3 million in the second quarter of 2008 primarily due to increased gross margins resulting from higher sales volume and more favorable product mix, partially offset by lower computer market sales.

Total Company Discussion

The following table highlights changes in significant components of the unaudited condensed consolidated interim statements of earnings for the three-month periods ended June 29, 2008 and July 1, 2007:

(\$ in thousands, except net earnings per share)	Three months ended		Increase (Decrease)
	June 29, 2008	July 1, 2007	
Net sales	\$ 186,091	\$ 169,624	\$ 16,467
Gross margin	40,153	32,944	7,209
% of net sales	21.6%	19.4%	2.2%
Selling, general and administrative expenses	21,506	20,940	566
% of net sales	11.6%	12.3%	(0.7)%
Research and development expenses	4,750	4,102	648
% of net sales	2.6%	2.4%	0.2%
Restructuring charge	113	-	113
% of net sales	0.1%	-%	0.1%
Operating earnings	13,784	7,902	5,882
% of net sales	7.4%	4.7%	2.7%
Income tax expense	2,807	1,570	1,237
Net earnings	9,957	5,905	4,052
% of net sales	5.4%	3.5%	1.9%
Net earnings per share - diluted	\$ 0.27	\$ 0.15	\$ 0.12

Second quarter sales of \$186.1 million increased \$16.5 million, or 9.7%, from the second quarter of 2007. The increase was attributable primarily to the Components and Sensors segment with higher sales of \$13.3 million mainly due to higher sales of automotive sensor and actuator products and the positive impact of the recently acquired

Tusonix business. EMS segment sales increased \$3.2 million from higher defense and aerospace and communications market sales, including the positive impact of the recent Orion acquisition, partially offset by a sales decrease into the computer market.

Gross margin as a percent of sales was 21.6% in the second quarter of 2008 compared to 19.4% in the second quarter of 2007 due to favorable segment sales mix, favorable product mix and operational efficiencies. The Components and Sensors segment, which inherently has higher gross margins, increased to 45.2% of total sales in the second quarter of 2008 compared to 41.7% of total sales in the same period of 2007.

Selling, general and administrative expenses were 11.6% of sales in the second quarter of 2008 versus 12.3% of sales in the second quarter of 2007. The decrease in selling, general and administrative expenses as a percent of sales relates primarily to the elimination of \$2.1 million of unusual audit and professional fees that were recorded in the second quarter of 2007 and continued expense control as we increased sales.

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Research and development expenses were \$4.8 million, or 2.6% of sales in the second quarter of 2008 versus \$4.1 million, or 2.4% of sales in the second quarter of 2007. The year-over-year increase reflects higher resources devoted to the development and launch of a new commercial market growth initiative. Research and development expenses are primarily from the Components and Sensors segment and are generally focused on expanded applications and new product development, as well as current product and process enhancements.

Operating earnings were \$13.8 million in the second quarter of 2008 compared to \$7.9 million in the second quarter of 2007. The increase in operating earnings resulted primarily from higher gross margin dollars on higher sales, including the impact of the recent acquisitions, partially offset by slightly higher selling, general and administrative and research and development spending in the quarter.

Interest and other expenses in the second quarter of 2008 were \$1.0 million, or \$0.6 million higher than the second quarter of 2007, primarily due to \$0.4 million higher interest expense resulting from higher outstanding debt balances used to finance the recent acquisitions.

Income taxes for the second quarter of 2008 were calculated using an estimated full-year rate of 22.0% compared to 21.0% for the second quarter of 2007.

Net earnings were \$10.0 million, or \$0.27 per diluted share, in the second quarter of 2008 compared to \$5.9 million, or \$0.15 per diluted share, in the second quarter of 2007.

Comparison of First Six Months 2008 and First Six Months 2007

Segment Discussion

The following table highlights the segment results for the six-month periods ended June 29, 2008 and July 1, 2007:

(\$ in thousands)	Components & Sensors	EMS	Consolidated Total
First Six Months 2008			
Net sales to external customers	\$ 161,882	\$ 196,964	\$ 358,846
Segment operating earnings	16,987	5,714	22,701
% of sales	10.5%	2.9%	6.3%
First Six Months 2007			
Net sales to external customers	\$ 140,323	\$ 192,559	\$ 332,882
Segment operating earnings	10,492	2,358	12,850
% of sales	7.5%	1.2%	3.9%

During the first six months of 2008, sales of Components and Sensors and EMS products, as a percentage of total sales, were 45.1% and 54.9%, respectively. The first six months of 2007 sales of Components and Sensors and EMS products, as a percentage of total sales, were 42.2% and 57.8%, respectively.

Components and Sensors segment sales increased \$21.6 million or 15.4% from the first half of 2007. The increase was primarily due to higher sales of automotive sensor and actuator products and the positive impact of the recently acquired Tusonix business. The Components and Sensors segment operating earnings increased \$6.5 million from higher sales, lower operating expenses as a percent of sales and higher pension income, partially offset by operating expenses at our Tusonix operations.

EMS segment sales increased by \$4.4 million or 2.3% from the first half of 2007. The increase was attributable primarily to higher sales into the defense and aerospace and communications markets, including the positive impact of the recent Orion acquisition, partially offset by lower sales into the computer market. EMS segment operating earnings increased \$3.4 million or 142% from the first half of 2007. The earnings increase was driven by higher sales and favorable product mix, partially offset by a sales decrease into the computer market. Lower computer market sales were expected due to certain products going to end of life and our emphasis on increasing sales into other markets.

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Total Company Discussion

The following table highlights changes in significant components of the condensed consolidated interim statements of earnings for the six-month periods ended June 29, 2008 and July 1, 2007:

	Six Months Ended		Increase
(\$ in thousands, except net earnings per share)	June 29, 2008	July 1, 2007	(Decrease)
Net sales	\$ 358,846	\$ 332,882	\$ 25,964
Restructuring-related costs	(274)	-	(274)
% of net sales	(0.1)%	-%	(0.1)%
Gross margin	73,977	63,282	10,695
% of net sales	20.6%	19.0%	1.6%
Selling, general and administrative expenses	42,482	42,210	272
% of net sales	11.8%	12.7%	(0.9)%
Research and development expenses	9,067	8,222	845
% of net sales	2.5%	2.5%	-%
Restructuring charge	263	-	263
% of net sales	0.1%	-%	0.1%
Operating earnings	22,165	12,850	9,315
% of net sales	6.2%	3.9%	2.3%
Income tax expense	4,688	2,646	2,042
Net earnings	\$ 16,623	\$ 9,951	\$ 6,672
% of net sales	4.6%	3.0%	1.6%
Net earnings per share - diluted	\$ 0.45	\$ 0.26	\$ 0.19

First six month sales of \$358.8 million increased \$26.0 million, or 7.8%, from the first six months of 2007. The Components and Sensors segment sales increase of \$21.6 million is attributable to higher sales of automotive sensor and actuator products and the positive impact of the recently acquired Tusonix business. EMS segment sales increased \$4.4 million from higher defense and aerospace and communications market sales as a result of the recent Orion acquisition, partially offset by lower computer market sales.

Gross margin increased \$10.7 million for the first half of 2008 resulting from higher sales volume, including the effect of acquisitions, and favorable product mix. As a percentage of sales, gross margin increased to 20.6% in the first half of 2008 compared to 19.0% in the first half of 2007.

Selling, general and administrative expenses decreased to 11.8% from 12.7%, as a percent of sales, primarily due to higher expenses in the first half of 2007 that included approximately \$3.4 million of unusual audit and professional fees.

Research and development expenses in the first half of 2008 increased \$0.8 million from the first half of 2007. The year-over-year increase reflects higher resources devoted to the development and launch of a new commercial market growth initiative. Research and development expenses are primarily from the Components and Sensors segment and are generally focused on expanded applications and new product development, as well as current product and process enhancements.

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Interest and other expenses through the first half of 2008 were \$0.9 million, or \$0.6 million higher than the first half of 2007, primarily due to \$0.7 million higher interest expense from higher outstanding debt balances used to finance the recent acquisitions.

Income taxes for the six months ended June 29, 2008 were calculated using an estimated full-year rate of 22.0% compared to 21.0% for the six months ended July 1, 2007.

Net earnings were \$16.6 million, or \$0.45 per diluted share, in the first half of 2008 compared \$5.9 million, or \$0.15 per diluted share, in the first half of 2007.

Outlook

Based on the first half results and the outlook for the remainder of the year, we expect full-year 2008 sales to grow by 5% - 8% over 2007. Full-year diluted earnings per share are expected to be in a range of \$0.79 to \$0.84 for 2008.

Liquidity and Capital Resources

Overview

Cash and cash equivalents were \$45.4 million at June 29, 2008 compared to \$52.9 million at December 31, 2007. Total debt on June 29, 2008 was \$92.3 million, which is higher than \$73.0 million at the end of 2007. Total debt as a percentage of total capitalization was 21.7% at the end of the second quarter of 2008, compared with 18.4% at the end of 2007. Total debt as a percentage of total capitalization is defined as the sum of notes payable, current portion of long-term debt and long-term debt as a percentage of total debt and shareholders' equity. Our total debt rose substantially in the first half of 2008 as we completed two strategic acquisitions.

Working capital increased \$21.2 million in the second quarter of 2008 versus year-end 2007, primarily due to an increase in inventory of \$12.8 million and higher accounts receivable of \$9.9 million, both of which resulted mainly from recent acquisitions.

Cash Flow

Operating Activities

Net cash provided by operating activities was \$12.3 million for the first half of 2008. Components of net cash provided by operating activities include net earnings of \$16.6 million, depreciation and amortization expense of \$12.8 million and equity-based compensation of \$1.7 million, and net changes in assets and liabilities of \$18.9 million. The changes in assets and liabilities were due to increased accounts receivable of \$5.9 million, increased inventory of \$3.7 million, an increase in prepaid pension asset of \$5.0 million and decreased accounts payable and accrued liabilities of \$4.2 million.

Net cash provided by operating activities was \$15.5 million for the first half of 2007. Components of net cash provided by operating activities include net earnings of \$10.0 million, depreciation and amortization expense of \$11.6 million and equity-based compensation of \$1.6 million, and net changes in assets and liabilities of \$7.7 million. The

changes in assets and liabilities were due to increased inventory of \$13.5 million and an increase in prepaid pension asset of \$4.4 million, partially offset by increased accounts payable and accrued liabilities of \$8.3 million and decreased accounts receivable of \$1.0 million.

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Free Cash Flow

The following table summarizes free cash flow:

(\$ in millions)	Six Months Ended	
	June 29, 2008	July 1, 2007
Net cash provided by operations	\$ 12.3	\$ 15.5
Capital expenditures	(9.7)	(6.3)
Free cash flow	\$ 2.6	\$ 9.2

Free cash flow is a non-GAAP financial measure that we define as net cash provided by operations less capital expenditures. The most directly comparable GAAP measure is net cash provided by operations. Management uses free cash flow to evaluate financial performance and in strategic planning, specifically, for investing and financing decisions. Management believes free cash flow is a useful measure because it reflects the performance of our overall operations more accurately than net cash provided by operations and because it provides investors with the same results that management used as the basis for making decisions about the business. Free cash flow is not an indicator of residual cash available for discretionary spending, because it does not take into account mandatory debt service or other non-discretionary spending requirements that are not deducted in the calculation of free cash flow. Management takes these limitations into account when using free cash flow to make investing and financing decisions.

Investing Activities

Net cash used in investing activities was \$30.4 million for the first half of 2008, primarily to complete acquisitions and for capital expenditures.

Net cash used in investing activities was \$6.2 million for the first half of 2007, primarily for capital expenditures.

Financing Activities

Net cash provided by financing activities for the first half of 2008 was \$10.5 million, consisting primarily of a net increase in debt of \$19.3 million, offset by \$6.8 million for purchase of CTS common stock and \$2.0 million in dividend payments.

Net cash used in financing activities for the first half of 2007 was \$11.1 million, consisting primarily of a \$4.3 million purchase of treasury stock, \$3.9 million in decreased short-term debt and \$2.1 million in dividend payments.

Capital Resources

Refer to Note E, "Debt", for further discussion.

On June 27, 2006, we entered into a \$100 million, unsecured revolving credit agreement. Under the terms of the revolving credit agreement, we can expand the credit facility to \$150 million. There was \$32.3 million outstanding under the revolving credit agreement at June 29, 2008. There was \$12 million outstanding under the revolving credit agreement at December 31, 2007. Interest rates on the revolving credit agreement fluctuate based upon LIBOR and

our quarterly total leverage ratio. We pay a commitment fee on the undrawn portion of the revolving credit agreement. The commitment fee varies based on the quarterly leverage ratio and was 0.20 percent per annum at June 29, 2008. The revolving credit agreement requires, among other things, that we comply with a maximum total leverage ratio and a minimum fixed charge coverage ratio. Failure to comply with these covenants could reduce the borrowing availability under the revolving credit agreement. We were in compliance with all debt covenants at June 29, 2008.

Additionally, the revolving credit agreement contains restrictions relating to the amount of secured debt we can have outstanding, the amounts allowed for acquisitions or asset sales and the amounts allowed for stock repurchases and dividend payments. The revolving credit agreement expires in June 2011.

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We have \$60 million convertible senior subordinated debentures (“2.125% Debentures”). These unsecured debentures bear interest at an annual rate of 2.125%, payable semiannually on May 1 and November 1 of each year through the maturity date of May 1, 2024. The 2.125% debentures are convertible, under certain circumstances, into CTS common stock at a conversion price of \$15.00 per share (which is equivalent to an initial conversion rate of approximately 66.6667 shares per \$1,000 principal amount of the notes). Upon conversion of the 2.125% debentures, in lieu of delivering common stock, we may, at our discretion, deliver cash or a combination of cash and common stock.

The conversion price of the 2.125% Debentures will be adjusted if we complete certain transactions, including: distribution of shares as a dividend to substantially all shareholders; subdivision, combination or reclassification of CTS common stock; distribution of stock purchase warrants to substantially all shareholders; distribution of cash, stock or property to shareholders in excess of \$0.03 per share; or purchase of its common stock pursuant to a tender offer or exchange offer under certain circumstances.

Holders may convert the 2.125% Debentures at any time during a conversion period if the closing price of CTS common stock is more than 120% of the conversion price (\$18.00 per share) for at least 20 of the 30 consecutive trading days immediately preceding the first trading day of the conversion period. The conversion periods begin on February 15, May 15, August 15, and November 15 of each year. Holders may also convert the notes if certain corporate transactions occur. As of June 29, 2008, none of the conditions for conversion of the 2.125% million Debentures were satisfied.

We may, at our option, redeem all or a portion of the 2.125% Debentures for cash at any time on or after May 1, 2009, at a redemption price equal to the principal amount of the notes plus any accrued and unpaid interest at the redemption date. Holders may require us to purchase for cash all or part of their notes on May 1, 2009, 2014, and 2019, or upon the occurrence of certain events, at 100% of the principal amount of the notes plus accrued and unpaid interest up to, but not including, the date of purchase.

We believe cash flows from operating activities and available borrowings under our revolving credit agreement will be adequate to fund our working capital and capital expenditure requirements for at least the next twelve months. We may choose to pursue additional equity and/or debt financing to fund acquisitions and/or to reduce our overall interest expense or improve our capital structure.

In June 2008, our Board of Directors authorized a program to repurchase up to one million shares of CTS common stock in the open market. The authorization expires on June 30, 2009. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes.

Forward-Looking Statements

This document contains statements that are, or may be deemed to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, any financial or other guidance, statements that reflect our current expectations concerning future results and events, and any other statements that are not based solely on historical fact. Forward-looking statements are based on management’s expectations, certain assumptions and currently available information. Readers are cautioned

not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. These forward-looking statements are made subject to certain risks, uncertainties and other factors, which could cause our actual results, performance or achievements to differ materially from those presented in the forward-looking statements. For more detailed information on the risks and uncertainties associated with our business, see our reports filed with the SEC. Examples of factors that may affect future operating results and financial condition include, but are not limited to: rapid technological change; general market conditions in the automotive, communications, and computer industries, as well as conditions in the industrial, defense & aerospace, and medical markets; reliance on key customers; the ability to protect our intellectual property; pricing pressures and demand for our products; and risks associated with our international operations, including trade and tariff barriers, exchange rates and political and geopolitical risks; and the impact of the accounting misstatements at its Moorpark and Santa Clara, California locations, including the results of the impact of the SEC's informal inquiry into these misstatements. We undertake no obligation to publicly update its forward-looking statements to reflect new information or events or circumstances that arise after the date hereof, including market or industry changes.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk since December 31, 2007.

Item 4. Controls and Procedures

Pursuant to Rule 13a-15(e) of the Securities and Exchange Act of 1934, management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated our disclosure controls and procedures. Based on such evaluation our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 29, 2008, provided that the evaluation did not include an evaluation of the effectiveness of the internal control over financial reporting for the acquired businesses, as described further below.

Each of the following facilities reports financial results that are included in this report for the quarter ended June 29, 2008. Our management has not completed an evaluation of the businesses internal controls over financial reporting since the dates of acquisition.

- The acquired business, Tusonix, Inc., had facilities in Tucson, Arizona and Nogales, Mexico.
- The acquired business Orion Manufacturing, Inc., had a facility in San Jose, California.

Changes in Internal Control Over Financial Reporting

Other than the changes resulting from the acquisitions, there were no changes in our internal control over financial reporting for the quarter ended June 29, 2008 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item Legal Proceedings

1.

Certain processes in the manufacture of our current and past products create hazardous waste by-products as currently defined by federal and state laws and regulations. We have been notified by the U.S. Environmental Protection Agency, state environmental agencies and, in some cases, generator groups that we are or may be a Potentially Responsible Party regarding hazardous waste remediation at several non-CTS sites. In addition to these non-CTS sites, we have an ongoing practice of providing reserves for probably remediation activities at certain of our manufacturing locations and for claims and proceedings against us with respect to other environmental matters. In the opinion of management, based upon presently available information relating to all such matters, either adequate provision for probable costs has been made, or the ultimate costs resulting will not materially affect the consolidated financial position, results of operations or cash flows of CTS.

Certain claims are pending against us with respect to matters arising out of the ordinary conduct of our business. For all claims, in the opinion of management, based upon presently available information, either adequate provision for anticipated costs has been made by insurance, accruals or otherwise, or the ultimate anticipated costs resulting will not materially affect our consolidated financial position, results of operations or cash flows.

We have been informed that the SEC is conducting an informal inquiry relating to the accounting misstatements of our Moorpark and Santa Clara, California manufacturing facilities. We are in full cooperation with the SEC in its inquiry.

Item 1A. Risk Factors

There have been no significant changes in the Company's risk factors since December 31, 2007.

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Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of CTS Corporation was held on May 30, 2008. At the meeting, the following matters were submitted to a vote of the stockholders of CTS:

The election of nine directors to serve for one year beginning at the 2008 annual shareholders' meeting and expiring at the 2009 annual shareholders' meeting. A summary of votes by directors is shown below:

Director	For	Withheld
Walter S. Catlow	30,556,216	220,098
Lawrence J. Cancia	30,487,920	288,394
Thomas G. Cody	28,761,685	2,014,629
Patricia K. Collawn	30,553,872	222,442
Gerald H. Frieling	30,477,094	299,220
Roger R. Hemminghaus	30,553,529	222,785
Michael A. Henning	30,550,869	225,445
Vinod M. Khilnani	30,663,672	112,642
Robert A. Profusek	30,556,296	220,018

Ratification of the independent registered public accounting firm. A summary of votes is shown below:

For	Against	Abstain
30,705,249	47,335	23,733

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Item 6. Exhibits

(31)(a) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(31)(b) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(32)(a) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32)(b) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

CTS Corporation

CTS Corporation

/s/ Richard G. Cutter III

/s/ Donna L. Belusar

Richard G. Cutter III

Donna L. Belusar

Vice President, Secretary and General
Counsel

Senior Vice President and Chief Financial
Officer

Dated: July 30, 2008

Dated: July 30, 2008