CTS CORP
Form 10-Q
October 26, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended October 2, 2011

OR

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

For the Transition Period from to

Commission File Number: 1-4639

CTS CORPORATION

(Exact name of registrant as specified in its charter)

Indiana	35-0225010
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
905 West Boulevard North, Elkhart, IN	46514
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: 574-523-3800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ¨

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

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of October 24, 2011: 34,322,063.

Table of Contents

CTS CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

			Page
PART I.	**FINANCIAL INFORMATION**		
	Item 1.	Financial Statements	3
		Unaudited Condensed Consolidated Statements of Earnings - For the Three and Nine Months Ended October 2, 2011 and October 3, 2010	3
		Unaudited Condensed Consolidated Balance Sheets - As of October 2, 2011 and December 31, 2010	4
		Unaudited Condensed Consolidated Statements of Cash Flows - For the Nine Months Ended October 2, 2011 and October 3, 2010	5
		Unaudited Condensed Consolidated Statements of Comprehensive Earnings - For the Three and Nine Months Ended October 2, 2011 and October 3, 2010	6
		Notes to Unaudited Condensed Consolidated Financial Statements	7
	Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	18
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	27
	Item 4.	Controls and Procedures	27
PART II.	**OTHER INFORMATION**		
	Item 1.	Legal Proceedings	27
	Item 1A.	Risk Factors	27
	Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	28
	Item 3	Defaults Upon Senior Securities	28
	Item 4	Removed and Reserved	28
	Item 5	Other Information	28
	Item 6.	Exhibits	28
SIGNATURES			29

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CTS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS - UNAUDITED

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Net sales	**$ 146,070**	$ 139,362	**$ 444,507**	$ 407,616
Costs and expenses:				
Cost of goods sold	**118,610**	109,393	**360,496**	316,828
Insurance recovery for business interruption - fire	**(1,113)**		**(1,892)**	
Selling, general and administrative expenses	**18,343**	17,112	**55,074**	54,944
Research and development expenses	**5,163**	5,086	**14,782**	13,985
Insurance recovery for property damage - fire	**(2,687)**		**(2,687)**	
Restructuring charge - Note M			**694**	
Operating earnings	**7,754**	7,771	**18,040**	21,859
Other (expense)/income:				
Interest expense	**(549)**	(254)	**(1,552)**	(717)
Interest income	**359**	105	**831**	239
Other	**(65)**	1,738	**1,808**	917
Total other (expense)/income	**(255)**	1,589	**1,087**	439
Earnings before income taxes	**7,499**	9,360	**19,127**	22,298
Income tax expense	**1,636**	2,445	**4,016**	5,060
Net earnings	**$ 5,863**	$ 6,915	**$ 15,111**	$ 17,238
Net earnings per share - Note J				
Basic	**$ 0.17**	$ 0.20	**$ 0.44**	$ 0.51
Diluted	**$ 0.17**	$ 0.20	**$ 0.43**	$ 0.50
Cash dividends declared per share	**$ 0.03**	$ 0.03	**$ 0.09**	$ 0.09
Average common shares outstanding:				
Basic	**34,375**	34,181	**34,347**	34,060
Diluted	**34,994**	34,827	**35,026**	34,816

See notes to unaudited condensed consolidated financial statements.

Table of Contents

CTS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(In thousands of dollars)

	October 2, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 89,172**	$ 73,315
Accounts receivable, less allowances (2011 - $1,017; 2010- $1,269)	**90,344**	95,930
Inventories, net - Note D	**91,366**	76,885
Other current assets	**22,104**	20,525
Total current assets	**292,986**	266,655
Property, plant and equipment, less accumulated depreciation (2011 - $242,713; 2010 - $244,662)	**81,952**	78,213
Other Assets		
Prepaid pension asset	50,561	44,075
Goodwill - Note L	500	500
Other intangible assets, net - Note L	30,576	31,432
Deferred income taxes	58,282	59,956
Other	1,618	1,753
Total other assets	**141,537**	137,716
Total Assets	**$ 516,475**	$ 482,584
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Notes payable	**$**	$
Accounts payable	**78,909**	75,384
Accrued liabilities	**43,325**	44,716
Total current liabilities	**122,234**	120,100
Long-term debt - Note E	**89,700**	70,000
Other long-term obligations	**13,487**	18,234
Shareholders Equity		
Preferred stock - authorized 25,000,000 shares without par value; none issued		
Common stock - authorized 75,000,000 shares without par value; 54,789,426 shares issued at October 2, 2011 and 54,517,560 shares issued at December 31, 2010	**287,652**	285,515
Additional contributed capital	**38,790**	37,775
Retained earnings	**347,542**	335,524
Accumulated other comprehensive loss	**(84,584)**	(87,555)
	589,400	571,259
Cost of common stock held in treasury Note K (2011 - 20,467,363 and 2010 20,320,759 shares)	**(298,346)**	(297,009)
Total shareholders equity	**291,054**	274,250
Total Liabilities and Shareholders Equity	**$ 516,475**	$ 482,584

See notes to unaudited condensed consolidated financial statements.

4

Table of Contents

CTS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands of dollars)

	Nine Months Ended	
	October 2, 2011	**October 3, 2010**
Cash flows from operating activities:		
Net earnings	**$ 15,111**	17,238
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**13,176**	13,244
Prepaid pension asset	**(6,486)**	(5,985)
Equity-based compensation - Note B	**3,363**	2,911
Restructuring charge - Note M	**694**	
Amortization of retirement benefit adjustments - Note F	**4,431**	3,646
Insurance recovery for business interruption and property damage - fire	**(4,579)**	
Insurance proceeds for business interruption and property damage other than property, plant and equipment - fire	**3,745**	
Other	**(1,955)**	(987)
Changes in assets and liabilities, net of acquisitions		
Accounts receivable	**6,619**	(17,929)
Inventories	**(14,184)**	(21,587)
Other current assets	**(1,750)**	(2,697)
Accounts payable and accrued liabilities	**(4,809)**	20,241
Total adjustments	**(1,735)**	(9,143)
Net cash provided by operating activities	**13,376**	8,095
Cash flows from investing activities:		
Payment for acquisition, net of cash acquired	**(2,930)**	
Earnout payment related to a 2008 acquisition		(500)
Insurance proceeds for property, plant and equipment damaged in fire	**3,057**	
Capital expenditures	**(10,216)**	(10,505)
Capital expenditures to replace property, plant and equipment damaged in fire	**(2,930)**	
Proceeds from sales of assets		1,530
Net cash used in investing activities	**(13,019)**	(9,475)
Cash flows from financing activities:		
Payments of long-term debt - Note E	**(3,056,200)**	(2,488,950)
Proceeds from borrowings of long-term debt - Note E	**3,075,900**	2,515,650
Payments of short-term notes payable	**(4,464)**	(2,258)
Proceeds from borrowings of short-term notes payable	**4,464**	2,258
Purchase of treasury stock	**(1,337)**	
Dividends paid	**(3,089)**	(3,063)
Exercise of stock options	**472**	
Other	**206**	69
Net cash provided by financing activities	**15,952**	23,706
Effect of exchange rate on cash and cash equivalents	**(452)**	(462)
Net increase in cash and cash equivalents	**15,857**	21,864

Cash and cash equivalents at beginning of year		**73,315**		51,167
Cash and cash equivalents at end of period	**$**	**89,172**	$	73,031
Supplemental cash flow information				
Cash paid during the period for:				
Interest	**$**	**1,314**	$	633
Income taxes - net	**$**	**3,038**	$	2,370

See notes to unaudited condensed consolidated financial statements.

Table of Contents

CTS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS - UNAUDITED

(In thousands of dollars)

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Net earnings	**$ 5,863**	$ 6,915	**$ 15,111**	$ 17,238
Other comprehensive earnings/(loss):				
Cumulative translation adjustment	**(801)**	1,090	**194**	(546)
Amortization of retirement benefit adjustments (net of tax)	**1,291**	582	**2,777**	1,998
Comprehensive earnings	**$ 6,353**	$ 8,587	**$ 18,082**	$ 18,690

See notes to unaudited condensed consolidated financial statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

October 2, 2011

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 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, 2010.

The accompanying unaudited condensed consolidated 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.

NOTE B Equity-Based Compensation

At October 2, 2011, CTS had five 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), the 2004 Omnibus Long-Term Incentive Plan (2004 Plan), and the 2009 Omnibus Equity and Performance Incentive Plan (2009 Plan). All of these plans, except the Directors Plan, were approved by shareholders. As of December 31, 2009, additional grants can only be made under the 2004 and 2009 Plans. CTS believes that equity-based awards align the interest of employees with those of its shareholders.

The 2009 Plan, and previously the 1996 Plan, 2001 Plan and 2004 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 2009 Plan and 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 nine months ended October 2, 2011 and October 3, 2010 relating to these plans:

	Three Months Ended		Nine Months Ended	
($ in thousands)	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Stock options	$	$	$	$ 3
Restricted stock units	1,002	746	3,363	2,908
Total	$ 1,002	$ 746	$ 3,363	$ 2,911

The following table summarizes the status of these plans as of October 2, 2011:

	2009 Plan	2004 Plan	2001 Plan	1996 Plan
Awards originally available	3,400,000	6,500,000	2,000,000	1,200,000
Stock options outstanding		257,200	405,000	74,850
Restricted stock units outstanding	563,328	141,745		
Options exercisable		257,200	405,000	74,850
Awards available for grant	2,492,104	268,500		

Table of Contents

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 estimated 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 were based on historical volatilities of the Company s stock. The expected option term is derived from historical data on exercise behavior. The dividend yield was based on historical dividend payments. The risk-free rate for periods within the contractual life of the option was 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 October 2, 2011 and October 3, 2010, and changes during the nine-month periods then ended, is presented below:

	October 2, 2011		October 3, 2010	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	**1,093,063**	**$ 12.61**	1,179,088	$ 13.72
Exercised	**(59,263)**	**$ 7.91**	(17,000)	$ 7.70
Expired	**(296,750)**	**$ 19.27**	(47,875)	$ 42.30
Outstanding at end of period	**737,050**	**$ 10.30**	1,114,213	$ 12.59
Exercisable at end of period	**737,050**	**$ 10.30**	1,114,213	$ 12.59

The total intrinsic value of share options exercised during the nine-month periods ended October 2, 2011 and October 3, 2010 were $209,000 and $30,000, respectively. The weighted average remaining contractual life of options outstanding and options exercisable at October 2, 2011 and October 3, 2010 were 2.1 years and 2.4 years, respectively. The aggregate intrinsic value of options outstanding and options exercisable at October 2, 2011 and October 3, 2010 were approximately $79,000 and $550,000, respectively. There were no unvested stock options at October 2, 2011.

The following table summarizes information about stock options outstanding at October 2, 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 10/2/11	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 10/2/11	Weighted Average Exercise Price
$ 7.70 11.11	615,250	1.97	$ 9.53	615,250	$ 9.53
$ 13.68 16.24	121,800	3.48	$ 14.22	121,800	$ 14.22

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 three to five-year period. A summary of the status of RSUs as of October 2, 2011 and October 3, 2010, and changes during the nine-month periods then ended is presented below:

	October 2, 2011		October 3, 2010	
	RSUs	Weighted-average Grant-Date Fair Value	RSUs	Weighted-average Grant-Date Fair Value
Outstanding at beginning of year	**807,601**	**$ 8.39**	854,745	$ 8.47
Granted	**241,100**	**$ 11.70**	282,200	$ 7.59
Converted	**(299,304)**	**$ 8.54**	(282,895)	$ 9.01
Forfeited	**(44,324)**	**$ 9.07**	(73,552)	$ 7.49
Outstanding at end of period	**705,073**	**$ 9.42**	780,498	$ 8.39
Weighted-average remaining contractual life	**6.4 years**		5.3 years	

Table of Contents

CTS recorded compensation expense of approximately $574,000 and $1,986,000 related to service-based restricted stock units during the three and nine month periods ended October 2, 2011, respectively. CTS recorded compensation expense of approximately $471,000 and $2,015,000 related to service-based restricted stock units during the three and nine month periods ended October 3, 2010, respectively.

As of October 2, 2011, there was $2.2 million of unrecognized compensation cost related to nonvested RSUs. That cost is expected to be recognized over a weighted-average period of 1.2 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 cliff vested and converted one-for-one to CTS common stock on December 31, 2010.

On February 2, 2010, CTS granted performance-based restricted stock unit awards for certain executives. Vesting may occur in the range from zero percent to 200% of the target amount of 78,000 units in 2012 subject to certification of the 2011 fiscal year results by CTS independent auditors. Vesting is dependent upon CTS achievement of sales growth targets.

On February 3, 2011, CTS granted performance-based restricted stock unit awards for certain executives. Vesting may occur in the range from zero percent to 200% of the target amount of 53,200 units in 2013 subject to certification of the 2012 fiscal year results by CTS independent auditors. Vesting is dependent upon CTS achievement of sales growth targets.

CTS recorded compensation expense of approximately $157,000 and $500,000 related to performance-based restricted stock units during the three and nine month periods ended October 2, 2011, respectively. CTS recorded compensation expense of approximately $87,000 and $264,000 related to performance-based restricted stock units during the three and nine month periods ended October 3, 2010, respectively. As of October 2, 2011 there was approximately $568,000 of unrecognized compensation cost related to performance-based RSUs. That cost is expected to be recognized over a weighted-average period of 0.9 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 in the range from zero percent 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 over a three-year period. During the year ended December 31, 2010, 12,500 units were earned and awarded to the executive officer.

On February 4, 2009, CTS granted market-based restricted stock unit awards for certain executives and key employees. Vesting may occur in the range from zero percent to 200% of the target amount of 128,000 units in 2011. Vesting is dependent upon CTS total stockholder return relative to 28 enumerated peer group companies stockholder return rates. No awards were vested as the vesting criterion was not met.

On February 2, 2010, CTS granted market-based restricted stock unit awards for certain executives and key employees. Vesting may occur in the range from zero percent to 200% of the target amount of 117,000 units in 2012. Vesting is dependent upon CTS total stockholder return relative to 28 enumerated peer group companies stockholder return rates.

On February 3, 2011, CTS granted market-based restricted stock unit awards for certain executives and key employees. Vesting may occur in the range from zero percent to 200% of the target amount of 79,800 units in 2013. Vesting is dependent upon CTS total stockholder return relative to 28 enumerated peer group companies stockholder return rates.

CTS recorded compensation expense of approximately $271,000 and $877,000 related to market-based restricted stock units during the three and nine month periods ended October 2, 2011, respectively. CTS recorded compensation expense of approximately $188,000 and $629,000 related to market-based restricted stock units during the three and nine month periods ended October 3, 2010, respectively. As of October 2, 2011, there was approximately $989,000 million of unrecognized compensation cost related to market-based RSUs. That cost is expected to be recognized over a weighted-average period of 1.0 years.

9

Table of Contents

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 2009 Plan.

NOTE C Acquisition

In January 2011, CTS acquired certain assets and assumed certain liabilities of Fordahl SA, a privately held company located in Brugg, Switzerland. This business was acquired for approximately $2.9 million, net of cash acquired. The assets acquired include inventory, accounts receivables, leasehold improvements, machinery and equipment, and certain intangible assets.

The Fordahl SA product line includes high-performance temperature compensated crystal oscillators and voltage controlled crystal oscillators. This product line is expected to expand CTS frequency product portfolio from clock and crystals to highly-engineered precision ovenized oscillators. This acquisition is expected to add new customers and to open up new market opportunities for CTS.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

($ in thousands)	Estimated Fair Values At January 24, 2011
Current assets	$ 2,293
Property, plant and equipment	2,141
Amortizable intangible assets	1,084
Fair value of assets acquired, including $59 cash acquired	5,518
Less fair value of liabilities acquired	2,529
Net assets acquired	2,989
Cash acquired	59
Net cash paid	$ 2,930

Under the terms of the purchase agreement, CTS may pay a contingent earn out of up to $0.9 million in cash, based on the achievement of certain financial targets in 2011 through 2013. The fair value of this earn out contingency approximates $370,000, and was recorded as a liability at the acquisition date.

This acquisition is accounted for using the acquisition method of accounting whereby the total purchase price will be allocated to tangible and intangible assets based on the fair market values on the date of acquisition. CTS determined the purchase price allocations on the acquisition based on estimates of the fair values of the assets acquired and liabilities assumed. These estimates were arrived at using recognized valuation techniques. The Company is still finalizing the purchase price allocation. The land and building, machinery and equipment and intangible assets are classified as Level 3 under the fair value hierarchy. The pro forma effect of this acquisition is not material to CTS results of operations or financial position.

NOTE D Inventories, net

Inventories consist of the following:

($ in thousands)	October 2, 2011	December 31, 2010
Finished goods	**$ 10,224**	$ 8,594

Work-in-process	**21,789**	16,394
Raw materials	**59,353**	51,897
Total inventories, net	**$ 91,366**	$ 76,885

Table of Contents

NOTE E Debt

Long-term debt was comprised of the following:

($ in thousands)	October 2, 2011	December 31, 2010
Revolving credit agreement, weighted-average interest rate of 1.9% (2011), and 1.1% (2010) due in 2015	**$ 89,700**	$ 70,000

On November 18, 2010, CTS entered into a $150 million, unsecured revolving credit agreement. Under the terms of the revolving credit agreement, CTS can expand the credit facility to $200 million, subject to participating banks approval. There was $89.7 million and $70.0 million outstanding under the revolving credit agreement at October 2, 2011 and December 31, 2010, respectively. At October 2, 2011 and December 31, 2010, CTS had $57.5 million and $77.2 million, respectively, available under this agreement, net of standby letters of credit of $2.8 million. Interest rates on the revolving credit agreement fluctuate based upon the London Interbank Offered Rate 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 0.375 percent per annum at October 2, 2011. 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 October 2, 2011. The revolving credit agreement requires CTS to deliver quarterly financial statements, annual financial statements, auditors certifications and compliance certificates within a specified number of days after the end of a quarter and year. Additionally, the revolving agreement contains restrictions limiting CTS ability to: dispose of assets, incur certain additional debt; repay other debt or amend subordinated debt instruments; create liens on assets; make investments, loans or advances; make acquisitions or engage in mergers or consolidations; engage in certain transactions with CTS subsidiaries and affiliates; and make stock repurchases and dividend payments. The revolving credit agreement expires in November 2015.

NOTE F Retirement Plans

Net pension income and postretirement expense for the three and nine-months ended October 2, 2011 and October 3, 2010 include the following components:

	Three Months Ended		Nine Months Ended	
($ in thousands)	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
PENSION PLANS				
Service cost	**$ 722**	$ 746	**$ 2,167**	$ 2,236
Interest cost	**3,196**	3,315	**9,653**	9,957
Expected return on plan assets [(1)]	**(6,062)**	(6,086)	**(18,184)**	(18,247)
Settlement cost	**637**		**637**	234
Amortization of prior service cost	**153**	153	**459**	663
Amortization of loss	**1,102**	993	**3,339**	2,983
Net pension income	**$ (252)**	$ (879)	**$ (1,929)**	$ (2,174)

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

	Three Months Ended		Nine Months Ended	
($ in thousands)	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
OTHER POSTRETIREMENT BENEFIT PLAN				

Service cost	**$ 4**	$ 3	**$ 12**	$ 10
Interest cost	**72**	75	**216**	225
Amortization of gain	**(1)**		**(4)**	
Postretirement expense	**$ 75**	$ 78	**$ 224**	$ 235

NOTE G Segments

CTS reportable segments are grouped by entities that exhibit similar economic characteristics. The segments reporting results are regularly reviewed by CTS chief operating decision maker to make decisions about resources to be allocated to these segments and to evaluate the segments performance. CTS has two reportable segments: 1) Electronics Manufacturing Services (EMS) and 2) Components and Sensors.

Table of Contents

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 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; and fabricated piezo-electric materials and substrates used primarily in medical and industrial 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 for the year ended December 31, 2010. Management evaluates performance based upon segment operating earnings before interest expense, interest income, non-operating income/(expense), and income tax expense.

In the third quarter of 2011, CTS expanded the presentation of segment operating earnings to currently include both segment operating earnings before corporate and shared services charges and segment operating earnings after corporate and shared services charges as shown in the table below. These charges primarily include Company headquarters support services such as information technology, accounting, treasury, legal and other support services which are not part of any business segment. Prior to this change, these charges were included within these operating segments. This presentation reflects the current fact that CTS chief operating decision-maker excludes these charges from the review of the results of the operating segments for purposes of measuring segment profitability and allocating resources. Results from prior periods here are presented on the same basis.

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

($ in thousands)	EMS	Components and Sensors	Total
Third Quarter of 2011			
Net sales to external customers	**$ 76,981**	**$ 69,089**	**$ 146,070**
Segment operating earnings before corporate and shared services charges	**$ 5,870**	**$ 7,738**	**$ 13,608**
Corporate and shared services charges	**(2,297)**	**(3,557)**	**(5,854)**
Segment operating earnings[(1)]	**$ 3,573**	**$ 4,181**	**$ 7,754**
Total assets	**$ 149,088**	**$ 367,387**	**$ 516,475**
Third Quarter of 2010			
Net sales to external customers	$ 67,592	$ 71,770	$ 139,362
Segment operating earnings before corporate and shared services charges	$ 1,503	$ 11,396	$ 12,899
Corporate and shared services charges	(1,431)	(3,697)	(5,128)
Segment operating earnings	$ 72	$ 7,699	$ 7,771
Total assets at 12-31-2010	$ 146,865	$ 335,719	$ 482,584
First Nine Months of 2011			
Net sales to external customers	**$ 235,349**	**$ 209,158**	**$ 444,507**
Segment operating earnings before corporate and shared services charges	**$ 9,960**	**$ 26,388**	**$ 36,348**
Corporate and shared services charges	**(6,013)**	**(11,601)**	**(17,614)**

Segment operating earnings[(2)]	**$ 3,947**	**$ 14,787**	**$ 18,734**
Total assets	**$ 149,088**	**$ 367,387**	**$ 516,475**
First Nine Months of 2010			
Net sales to external customers	$ 190,175	$ 217,441	$ 407,616
Segment operating earnings before corporate and shared services charges	$ 3,533	$ 38,247	$ 41,780
Corporate and shared services charges	(6,340)	(13,581)	(19,921)
Segment operating earnings	$ (2,807)	$ 24,666	$ 21,859
Total assets at 12-31-2010	$ 146,865	$ 335,719	$ 482,584

Table of Contents

(1) *EMS segment s operating earnings of $3,573 include $2,687 of insurance recovery for property damage related to the fire at CTS Scotland s manufacturing facility.*

(2) *EMS segment s operating earnings of $3,947 include $2,687 of insurance recovery for property damage related to the fire at CTS Scotland s manufacturing facility.*

Reconciling information between reportable segments operating earnings and CTS consolidated earnings before income taxes is shown in the following table for the three and nine-month periods then ended:

	Three Months Ended		Nine Months Ended	
($ in thousands)	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Total segment operating earnings	**$ 7,754**	$ 7,771	**$ 18,734**	$ 21,859
Restructuring charges			**(694)**	
Interest expense	**(549)**	(254)	**(1,552)**	(717)
Interest income	**359**	105	**831**	239
Other (expense)/income	**(65)**	1,738	**1,808**	917
Earnings before income taxes	**$ 7,499**	$ 9,360	**$ 19,127**	$ 22,298

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.

CTS manufactures accelerator pedals for a number of automobile manufacturers, including subsidiaries of Toyota Motor Corporation (Toyota). In January 2010, Toyota initiated a recall of approximately 2.3 million vehicles in North America containing pedals manufactured by CTS. The pedal recall and associated events have led to the Company being named as a co-defendant with Toyota in certain litigation. In February 2010, CTS entered into an agreement with Toyota whereby Toyota agreed that it will indemnify, defend, and hold the Company harmless from, and the parties will cooperate in the defense of, third-party civil claims and actions that are filed or asserted in the United States or Canada and that arise from or relate to alleged incidents of unintended acceleration of Toyota and Lexus vehicles. The limited exceptions to indemnification restrict CTS share of any liability to amounts collectable from its insurers.

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

During the second quarter of 2011, a fire occurred at the Company s Scotland EMS manufacturing facility. The fire damaged approximately $1.6 million of inventory and $0.2 million of machinery and equipment. CTS has property insurance coverage with a $100,000 deductible that will cover the costs of repairing and/or replacing the damaged inventory and machinery and equipment. CTS also has business interruption insurance that is expected to cover the lost sales impact and fixed costs. Consequently, as of October 2, 2011, CTS wrote-off approximately $0.2 million of net book value of machinery and equipment and $1.6 million of inventory; and deferred $0.5 million of other recoverable costs and $0.6 million of recoverable building restoration costs to other receivable. The total fire-related other receivable was approximately $0.8 million as of October 2, 2011 and was included in Other Current Assets in CTS Unaudited Condensed Consolidated Balance Sheets.

During the third quarter, CTS recovered approximately $6.8 million from the Company s insurance carriers. Out of the $6.8 million recovered, approximately $1.9 million was for business interruption and the remaining $4.9 million was for the replacement of damaged property. As a result of these insurance recoveries, CTS recorded a recovery of approximately $1.1 million for business interruption and a recovery of $2.7 million for property damage in CTS Unaudited Condensed Consolidated Statements of Earnings for the quarter ended October 2, 2011. CTS

recorded a recovery of approximately $1.9 million for business interruption and a recovery of $2.7 million for property damage in CTS Unaudited Condensed Consolidated Statements of Earnings for the nine-month period ended October 2, 2011.

Table of Contents

NOTE I Fair Value Measurement

The table below summarizes the financial liability that was measured at fair value on a recurring basis as of October 2, 2011:

($ in thousands)	Carrying Value at October 2, 2011	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Loss for Quarter Ended October 2, 2011
Long-term debt	$ 89,700	$	$ 89,700	$	$

CTS long-term debt consists of a revolving debt agreement. There is a readily determinable market for CTS revolving credit debt and it is classified within Level 2 of the fair value hierarchy as the market is not deemed to be active. The fair value of long-term debt was measured using a market approach which uses current industry information.

NOTE J Earnings Per Share

The table below provides a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations. Basic earnings per share is calculated using the weighted average number of common shares outstanding as the denominator and net earnings as the numerator. Diluted earnings per share is calculated by adding all potentially dilutive shares to the weighted average number of common shares outstanding for the numerator. All anti-dilutive shares are excluded from the computation of diluted earnings per share. 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 nine-month periods ended October 2, 2011 and October 3, 2010.

($ in thousands, except per share amounts)	Net Earnings (Numerator)	Shares (in thousands) (Denominator)	Per Share Amount
Third Quarter 2011			
Basic EPS	**$ 5,863**	**34,375**	**$ 0.17**
Effect of dilutive securities:			
Equity-based compensation plans		619	
Diluted EPS	**$ 5,863**	**34,994**	**$ 0.17**
Third Quarter 2010			
Basic EPS	$ 6,915	34,181	$ 0.20
Effect of dilutive securities:			
Equity-based compensation plans		646	
Diluted EPS	$ 6,915	34,827	$ 0.20
First Nine Months of 2011			
Basic EPS	**$ 15,111**	**34,347**	**$ 0.44**
Effect of dilutive securities:			
Equity-based compensation plans		679	

Diluted EPS	**$**	**15,111**	**35,026**	**$** **0.43**
First Nine Months of 2010				
Basic EPS	$	17,238	34,060	$ 0.51
Effect of dilutive securities:				
Equity-based compensation plans			756	
Diluted EPS	$	17,238	34,816	$ 0.50

Table of Contents

The following table shows the potentially dilutive securities which have been excluded from the three and nine-month periods 2011 and 2010 dilutive earnings per share calculation because they are either anti-dilutive, or the exercise price exceeds the average market price.

	Three Months Ended		Nine Months Ended	
(Number of Shares in Thousands)	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Stock options where the assumed proceeds exceed the average market price	**548**	866	**548**	866

NOTE K Treasury Stock

Common stock held in treasury totaled 20,467,363 shares with a cost of $298.3 million at October 2, 2011 and 20,320,759 with a cost of $297.0 million at December 31, 2010. Approximately 6.4 million shares are available for future issuances.

In May 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. The authorization has no expiration. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During the second quarter of 2011, 35,500 shares were repurchased at a cost of approximately $326,000 or $9.19 per share, under this program. During the third quarter of 2011, 111,104 were repurchased at a cost of approximately $1.0 million or $9.10 per share, under this program. No shares were repurchased under this program in 2010.

NOTE L Goodwill and Other Intangible Assets

CTS has the following other intangible assets and goodwill as of:

	October 2, 2011		December 31, 2010	
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists/relationships	**$ 51,478**	**$ (21,786)**	$ 51,084	$ (19,999)
Patents	**10,319**	**(10,319)**	10,319	(10,319)
Other intangibles	**1,190**	**(306)**	500	(153)
Total	**62,987**	**(32,411)**	61,903	(30,471)
Goodwill	**500**		500	
Total other intangible assets and goodwill	**$ 63,487**	**$ (32,411)**	$ 62,403	$ (30,471)

Of the net intangible assets at October 2, 2011, $6.6 million relates to the EMS segment and $24.5 million relates to the Components and Sensors segment. CTS recorded amortization expense of $0.7 million and $1.9 million during the three and nine-month periods ended October 2, 2011, respectively. CTS recorded amortization expense of $0.6 million and $1.9 million during the three and nine-month periods ended October 3, 2010, respectively. CTS estimates remaining amortization expense of $0.6 million in 2011, $2.6 million in 2012 through 2013, $2.5 million in years 2014 through 2015 and $19.7 million thereafter. All goodwill relates to CTS EMS segment.

NOTE M Restructuring Charge

During April 2011, CTS initiated certain restructuring actions to reorganize certain operations to further improve its cost structure. These actions resulted in the elimination of approximately 30 positions. 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 October 2, 2011:

($ in millions) **April 2011 Plan**	**Planned Costs**	**Actual incurred through October 2, 2011**
Workforce reduction	$ 0.8	$ 0.7
Total restructuring charge	$ 0.8	$ 0.7

Of the restructuring charges incurred, $0.5 million relates to the Components and Sensors segment and $0.2 million relates to the EMS segment. Restructuring charges are reported on a separate line on the Unaudited Consolidated Statements of Earnings.

Table of Contents

The following table displays the restructuring reserve activity related to the realignment for the period ended October 2, 2011:

($ in millions)	**April 2011 Plan**
Restructuring liability at January 1, 2011	**$**
Restructuring charges	**0.7**
Cost paid	**(0.6)**
Restructuring liability at October 2, 2011	**$ 0.1**

NOTE N Subsequent Event

During the fourth quarter of 2011, severe flooding in Thailand has impacted CTS EMS manufacturing facility near Bangkok. As s result, production at this facility has been suspended since the second week of October 2011 and the facility is expected to remain closed for approximately 10 12 weeks. In the meantime, production is being transferred from Bangkok to other CTS facilities to meet customer demand. CTS has adequate insurance coverage for such events. Management continues to assess the impact of the floods. At the time of filing this Form 10-Q, the impact on CTS consolidated financial statements is not expected to be material.

NOTE O Recent Accounting Pronouncements

ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 amends Accounting Standards Codification Topic 820, Fair Value Measurements (ASC 820) by: (1) clarifying that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of non-financial assets; (2) allowing a reporting entity to measure the fair value of the net asset or net liability position in a manner consistent with how market participants would price the net risk position, if certain criteria are met; (3) providing a framework for considering whether a premium or discount can be applied in a fair value measurement; (4) providing that the fair value of an instrument classified in a reporting entity s shareholders equity is estimated from the perspective of a market participant that holds the identical item as an asset; and (5) expanding the qualitative and quantitative fair value disclosure requirements. The expanded disclosures include, for Level 3 items, a description of the valuation process and a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs if a change in those inputs would result in a significantly different fair value measurement. ASU 2011-4 also requires disclosures about the highest-and-best-use of a non-financial asset when this use differs from the asset s current use and the reasons for such a difference. In addition, this ASU amends Accounting Standards Codification 820, Fair Value Measurements, to require disclosures to include any transfers between Level 1 and Level 2 of the fair value hierarchy. These amendments are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The amendments of ASU 2011-04, when adopted, are not expected to have a material impact on CTS consolidated financial statements.

ASU 2011-05, Presentation of Comprehensive Income

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, and the second statement would include components of other comprehensive income. This ASU does not change the items that must be reported in other comprehensive income. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The provisions of ASU 2011-05, when adopted, are not expected to have a material impact on CTS consolidated financial statements.

ASU 2011-08, Testing Goodwill for Impairment

In September 2011, the FASB issued Accounting Standards Update 2011-08, Testing Goodwill for Impairment (ASU 2011-08) to simplify how both public and non-public entities test goodwill for impairment. The amended guidance gives entities the option to qualitatively assess whether the two-step goodwill impairment test under Accounting Standards Codification Topic 350-20, Intangibles Goodwill and Other Goodwill (ASC 350-20) must be performed. Under ASU 2011-08, entities can assess whether it is more likely than not that the fair value of a reporting unit is less than its

16

Table of Contents

carrying amount. If entities elect to perform the qualitative assessment and determine that it is not more than likely than not that the reporting unit s fair value is less than the carrying amount, no further evaluation is necessary. However, if entities choose not to perform the qualitative assessment or determines through the qualitative assessment that the reporting unit s fair value is more likely than not less than its carrying amount, then entities would perform Step 1 of the goodwill impairment test under ASC 350-20. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years, although early adoption is permitted. The provisions of ASU 2011-08, when adopted, are not expected to have a material impact on CTS consolidated financial statements.

Table of Contents

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

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 and are based on various assumptions as to future events, the occurrence of which necessarily are subject to uncertainties. 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. Examples of factors that may affect future operating results and financial condition include, but are not limited to: changes in the economy generally and in respect to the businesses in which the Company operates; rapid technological change; general market conditions in the automotive, communications, and computer industries, as well as conditions in the industrial, defense and aerospace, and medical markets; reliance on key customers; unanticipated natural or other events such as the Japan earthquake and the Thailand flood; 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. Many of these, and other, risks and uncertainties are discussed in further detail in Item 1.A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. We undertake no obligation to publicly update our forward-looking statements to reflect new information or events or circumstances that arise after the date hereof, including market or industry changes.

Overview

CTS Corporation (we , our , us) is a global manufacturer of components and sensors used primarily in the automotive, communications, and defense and aerospace markets. We also provide electronic manufacturing solutions, including design and supply chain management functions, primarily serving the defense and aerospace, communications, industrial and medical markets under contract arrangements with original equipment manufacturers.

As discussed in more detail throughout the MD&A:

Total company net sales in the third quarter of 2011 of $146.1 million were reported through two segments, Components and Sensors and EMS. Net sales increased by $6.7 million, or 4.8%, in the third quarter of 2011 from the third quarter of 2010. Net sales in the EMS segment increased by 13.9% versus the third quarter of 2010, while net sales in the Components and Sensors segment decreased by 3.7%.

Gross margin as a percent of net sales was 18.8% in the third quarter of 2011 compared to 21.5% in the third quarter of 2010 due to a shift in segment mix as the EMS segment sales increased as a percentage of total company net sales increased to 52.7% from 48.5% in the same period of 2010. The reduction in gross margin also resulted from higher commodity and precious metal prices as well as program launch costs for new product introductions.

Selling, general and administrative (SG&A) expenses were $18.3 million, or 12.6% of net sales, in the third quarter of 2011 versus $17.1 million, or 12.3% of net sales, in the third quarter of 2010. A discrete pension settlement cost of $0.7 million was incurred during the third quarter of 2011.

Research and development (R&D) expenses were $5.2 million, or 3.5% of net sales, in the third quarter of 2011 compared to $5.1 million, or 3.6% of net sales, in the third quarter of 2010.

Insurance recovery for business interruption due to the fire at our Scotland facility was $1.1 million in the third quarter of 2011. This recovery was primarily for reimbursement for fixed costs.

Insurance recovery for property damage due to our Scotland facility fire was $2.7 million in the third quarter of 2011.

Income tax expense and effective tax rate for the third quarter of 2011 were $1.6 million and 21.8% respectively versus $2.4 million and 26.1% in the same quarter of 2010.

Net earnings were $5.9 million, or $0.17 per diluted share, in the third quarter of 2011. This compares with $6.9 million, or $0.20 per diluted share, in the third quarter of 2010.

Table of Contents

Critical Accounting Policies

MD&A discusses our unaudited condensed consolidated 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 judgments and estimates related to the following critical accounting policies could materially affect our consolidated financial statements:

- Inventory valuation, the allowance for doubtful accounts, and other accrued liabilities
- Long-lived and intangible assets valuation, and depreciation/amortization periods
- Income taxes
- Retirement plans
- Equity-based compensation

In the third quarter of 2011, there were no changes in the above critical accounting policies.

Results of Operations

Comparison of Third Quarter 2011 and Third Quarter 2010

Segment Discussion

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

The following table highlights the segment results for the quarters ended October 2, 2011 and October 3, 2010:

($ in thousands)	Components & Sensors	EMS	Consolidated Total
Third Quarter 2011			
Net sales	**$ 69,089**	**$ 76,981**	**$ 146,070**
Segment operating earnings	**4,181**	**$ 3,573**	**$ 7,754**
% of net sales	**6.1%**	**4.6%**	**5.3%**
Third Quarter 2010			
Net sales	$ 71,770	$ 67,592	$ 139,362
Segment operating earnings	7,699	$ 72	$ 7,771
% of net sales	10.7%	0.1%	5.6%

Net sales in the Components and Sensors segment decreased $2.7 million, or 3.7%, from the third quarter of 2010. The decrease in net sales was primarily attributable to lower net sales in electronic components for computer and telecommunications infrastructure applications of $1.3 million and lower net sales of $1.3 million in the automotive market primarily due to production disruptions caused by the March 2011 earthquake in Japan. These earthquake-related sales are expected to be partially recovered in the fourth quarter of 2011.

The Components and Sensors segment recorded operating earnings of $4.2 million in the third quarter of 2011 versus $7.7 million in the third quarter of 2010. The unfavorable earnings change resulted primarily from the negative impact of lower net sales, higher commodity and precious metal prices, and program launch costs for new product introductions.

Net sales in the EMS segment increased $9.4 million, or 13.9%, in the third quarter of 2011 from the third quarter of 2010. The increase in net sales was due to higher net sales of $5.6 million in the defense and aerospace market, $4.0 million in the communications market, and $1.9 million in the industrial market, partially offset by lower net sales of $1.2 million in the computer market and $1.0 million in the medical market.

Table of Contents

EMS segment operating earnings was $3.6 million in the third quarter of 2011 versus earnings of $0.1 million in the third quarter 2010 primarily due to a $2.7 million property damage insurance recovery resulting from the May 2011 fire at our Scotland facility and the positive impact of higher net sales partially offset by unfavorable product mix.

Total Company Discussion

The following table highlights changes in significant components of the Unaudited Condensed Consolidated Statements of Earnings for the quarters ended October 2, 2011 and October 3, 2010:

	Quarter ended		
($ in thousands, except net earnings per share)	**October 2, 2011**	**October 3, 2010**	**Increase (Decrease)**
Net sales	**$ 146,070**	$ 139,362	$ 6,708
Gross margin	**$ 27,460**	$ 29,969	$ (2,509)
% of net sales	**18.8%**	21.5%	(2.7)%
Selling, general and administrative expenses	**$ 18,343**	$ 17,112	$ 1,231
% of net sales	**12.6%**	12.3%	0.3%
Research and development expenses	**$ 5,163**	$ 5,086	$ 77
% of net sales	**3.5%**	3.6%	(0.1)%
Insurance recovery for business interruption - fire	**$ 1,113**	$	$ 1,113
Insurance recovery for property damage - fire	**$ 2,687**	$	$ 2,687
Operating earnings	**$ 7,754**	$ 7,771	$ (17)
% of net sales	**5.3%**	5.6%	(0.3)%
Interest and other (expense)/income	**$ (255)**	$ 1,589	$ (1,844)
% of net sales	**(0.2)%**	1.1%	(1.3)%
Income tax expense	**$ 1,636**	$ 2,445	$ (809)
Net earnings	**$ 5,863**	$ 6,915	$ (1,052)
% of net sales	**4.0%**	5.0%	(1.0)%
Net earnings per diluted share	**$ 0.17**	$ 0.20	$ (0.03)

Net sales of $146.1 million in the third quarter of 2011 increased $6.7 million, or 4.8%, from the third quarter of 2010 attributable to higher net sales in the EMS segment of $9.4 million, offset by lower net sales in the Components and Sensors segment of $2.7 million.

Gross margin as a percent of net sales was 18.8% in the third quarter of 2011 compared to 21.5% in the third quarter of 2010 due to a shift in segment mix as the EMS segment percent of total company net sales increased to 52.7% from 48.5% in the same period of 2010. The reduction in gross margin also resulted from higher commodity and precious metal prices, unfavorable product mix, and program launch costs for new product introductions. Further, the third quarter of 2011 included approximately $0.5 million of fixed costs that were reimbursed via our business interruption insurance policy.

SG&A expenses were $18.3 million, or 12.6% of net sales, in the third quarter of 2011 versus $17.1 million, or 12.3% of net sales, in the third quarter of 2010. SG&A expenses increased primarily due to a discrete pension settlement cost of $0.7 million and increased spending to support higher net sales. Further, the third quarter of 2011 included approximately $0.3 million of fixed costs that were reimbursed via our business interruption insurance policy.

R&D expenses were $5.2 million, or 3.5% of net sales, in the third quarter of 2011 compared to $5.1 million, or 3.6% of net sales, in the third quarter of 2010. R&D expenses are incurred by the Components and Sensors segment and are primarily focused on expanded applications of existing products and new product development, as well as current product and process enhancements.

Insurance recovery for business interruption due to the fire at our Scotland facility was $1.1 million in the third quarter of 2011. This recovery was reimbursement for fixed costs as noted above.

Table of Contents

Insurance recovery for property damage due to the fire at our Scotland facility was $2.7 million in the third quarter of 2011.

Operating earnings were $7.8 million in the third quarter of 2011 and 2010.

Interest and other expense was $0.3 million in the third quarter of 2011 versus $1.6 million income in the same quarter 2010 primarily due to the unfavorable impact of the strengthening U.S. dollar relative to most of the currencies of the countries where we operate.

The effective tax rate for third quarter 2011 was 21.8% compared to 26.1% in the third quarter of 2010. The decrease in the effective tax rate was primarily due to changes in the mix of earnings by jurisdiction.

Net earnings were $5.9 million, or $0.17 per diluted share, in the third quarter of 2011 compared with net earnings of $6.9 million, or $0.20 per share, in the third quarter of 2010.

Comparison of First Nine Months 2011 and First Nine Months 2010

Segment Discussion

The following table highlights the segment results for the nine-month periods ended October 2, 2011 and October 3, 2010:

($ in thousands)	Components & Sensors	EMS	Consolidated Total
First Nine Months 2011			
Net sales	**$ 209,158**	**$ 235,349**	**$ 444,507**
Segment operating earnings	**$ 14,787**	**$ 3,947**	**$ 18,734**
% of net sales	**7.1%**	**1.7%**	**4.2%**
First Nine Months 2010			
Net sales	$ 217,441	$ 190,175	$ 407,616
Segment operating earnings/(loss)	$ 24,666	$ (2,807)	$ 21,859
% of net sales	11.3%	(1.5)%	5.4%

Net sales in the Components and Sensors segment decreased by $8.3 million, or 3.8% from the first nine months of 2010, primarily attributable to lower net sales of $8.3 million in the automotive market primarily due to production disruptions caused by the March 2011 earthquake in Japan and lower service parts net sales.

The Components and Sensors segment operating earnings were $14.8 million in the first nine months of 2011 versus $24.7 million in the first nine months of 2010. The unfavorable earnings change resulted primarily from lower net sales, higher commodity prices, program launch costs for new product introductions, higher research and development costs, and a gain from the sale of an idle facility in 2010 that did not recur.

Net sales in the EMS segment increased $45.2 million, or 23.8%, in the first nine months of 2011 versus the first nine months of 2010. The increase in net sales was due to higher net sales of $16.1 million in the defense and aerospace market, $13.0 million in the industrial market, $10.8 million in the communications market, $4.8 million in the computer market, and $0.5 million in the medical market.

EMS segment operating earnings were $3.9 million in the first nine months of 2011 versus an operating loss of $2.8 million in the first nine months of 2010. The favorable earnings change was primarily due to higher net sales volume and a $2.7 million insurance recovery resulting from a recent fire at our Scotland facility.

Table of Contents

Total Company Discussion

The following table highlights changes in significant components of the Unaudited Condensed Consolidated Statements of Earnings for the nine-month periods ended October 2, 2011 and October 3, 2010:

	Nine months ended		
($ in thousands, except net earnings per share)	**October 2, 2011**	**October 3, 2010**	**Increase (Decrease)**
Net sales	**$ 444,507**	$ 407,616	$ 36,891
Gross margin	**$ 84,011**	$ 90,788	$ (6,777)
% of net sales	**18.9%**	22.3%	(3.4)%
Selling, general and administrative expenses	**$ 55,074**	$ 54,944	$ 130
% of net sales	**12.4%**	13.5%	(1.1)%
Research and development expenses	**$ 14,782**	$ 13,985	$ 797
% of net sales	**3.3%**	3.4%	(0.1)%
Insurance recovery for business interruption - fire	**$ 1,892**	$	$ 1,892
Insurance recovery for property damage - fire	**$ 2,687**	$	$ 2,687
Restructuring charge	**$ 694**	$	$ 694
% of net sales	**0.2%**	%	0.2%
Operating earnings	**$ 18,040**	$ 21,859	$ (3,819)
% of net sales	**4.1%**	5.4%	(1.3)%
Interest and other income	**$ 1,087**	$ 439	$ 648
% of net sales	**0.2%**	0.1%	0.1%
Income tax expense	**$ 4,016**	$ 5,060	$ (1,044)
Net earnings	**$ 15,111**	$ 17,238	$ (2,127)
% of net sales	**3.4%**	4.2%	(0.8)%
Net earnings per diluted share	**$ 0.43**	$ 0.50	$ (0.07)

Net sales of $444.5 million in the first nine months of 2011 increased by $36.9 million, or 9.1%, from the first nine months of 2010 attributable to higher EMS segment net sales of $45.2 million, offset by lower Components and Sensors segment net sales of $8.3 million.

Gross margin as a percent of net sales was 18.9% in the first nine months of 2011 compared to 22.3% in the first nine months of 2010. Approximately half of the reduction was due to a shift in segment mix as EMS segment percent of total company net sales increased to 52.9% from 46.7% in the same period of 2010. The reduction in gross margin also resulted from higher commodity and precious metal prices and program launch costs for new product introductions. Further, the first nine months of 2011 included approximately $1.0 million of fixed costs that were reimbursed via our business interruption insurance policy.

SG&A expenses were $55.1 million, or 12.4% of net sales, in the first nine months of 2011 versus $54.9 million, or 13.5% of net sales, in the first nine months of 2010. SG&A expenses as a percentage of net sales improved significantly, reflecting disciplined spending on higher net sales. Further, the first nine months of 2011 included approximately $0.6 million of fixed costs that were reimbursed via our business interruption insurance policy.

R&D expenses were $14.8 million, or 3.3% of net sales, in the first nine months of 2011 versus $14.0 million, or 3.4% of net sales, in the first nine months of 2010. The increase was primarily driven by spending to continue to develop and launch new products and growth initiatives. R&D expenses are incurred by the Components and Sensors segment and are primarily focused on expanded applications of existing products and new product development, as well as current product and process enhancements.

Table of Contents

Insurance recovery for business interruption due to the fire at our Scotland facility was $1.9 million in the first nine months of 2011. This recovery was reimbursement for fixed costs as noted above.

Insurance recovery for property damage due to the fire at our Scotland facility was $2.7 million in the first nine months of 2011.

Operating earnings were $18.0 million in the first nine months of 2011 compared to $21.9 million in the first nine months of 2010.

Interest and other income in the first nine months of 2011 was $1.1 million versus $0.4 million in the same period of 2010 primarily due to foreign exchange gains in 2011.

The effective tax rate for the first nine months of 2011 was 21.0% compared to 22.7% in the first nine months of 2010. The decrease in the effective tax rate was primarily due to changes in the mix of earnings by jurisdiction.

Net earnings of $15.1 million, or $0.43 per diluted share, in the first nine months of 2011 compares to $17.2 million, or $0.50 per share, in the first nine months of 2010.

CTS Scotland Facility Fire

During the second quarter of 2011, a fire occurred at the Company s Scotland EMS manufacturing facility. The fire damaged approximately $1.6 million of inventory and $0.2 million of machinery and equipment. CTS has property insurance coverage with a $100,000 deductible that will cover the costs of repairing and/or replacing the damaged inventory and machinery and equipment. CTS also has business interruption insurance that is expected to cover the lost sales impact and fixed costs. Consequently, as of October 2, 2011, CTS wrote-off approximately $0.2 million of net book value of machinery and equipment and $1.6 million of inventory; and deferred $0.5 million of other recoverable costs and $0.6 million of recoverable building restoration costs to other receivable. The total fire-related other receivable was approximately $0.8 million as of October 2, 2011 and was included in Other Current Assets in CTS Unaudited Condensed Consolidated Balance Sheets.

During the third quarter, CTS recovered approximately $6.8 million from the Company s insurance carriers. Out of the $6.8 million recovered, approximately $1.9 million was for business interruption and the remaining $4.9 million was for the replacement of damaged property. As a result of these insurance recoveries, CTS recorded a recovery of approximately $1.1 million for business interruption and a recovery of $2.7 million for property damage in CTS Unaudited Condensed Consolidated Statements of Earnings for the quarter ended October 2, 2011. CTS recorded a recovery of approximately $1.9 million for business interruption and a recovery of $2.7 million for property damage in CTS Unaudited Condensed Consolidated Statements of Earnings for the nine-month period ended October 2, 2011.

Acquisition

In January 2011, we acquired certain assets and assumed certain liabilities of Fordahl SA, a privately-held company located in Brugg, Switzerland. This business was acquired with cash of approximately $2.9 million, net of cash acquired. The assets acquired include accounts receivables, inventory, leasehold improvements, machinery and equipment, and certain intangible assets.

The Fordahl SA product line includes high-performance temperature compensated crystal oscillators and voltage controlled crystal oscillators. This product line is expected to expand our frequency product portfolio from clocks and crystals to highly-engineered precision ovenized oscillators. This acquisition is expected to add new customers and to open up new market opportunities for us.

This acquisition is accounted for using the acquisition method of accounting whereby the total purchase price will be allocated to tangible and intangible assets based on the fair market values on the date of acquisition. The pro forma effects of the results of this acquisition were not material to our results of operations or financial position.

2011 Outlook

Management continues to believe that a modest recovery, amidst the current market environment, supports a positive fourth quarter outlook for CTS. CTS businesses and the global industries it serves, however, are subject to macroeconomic volatility and recent natural disasters such as the Japan earthquake and the Thailand flood. As a result, there can be no assurance that future market conditions or events may not have a negative impact on business operations.

23

Table of Contents

Liquidity and Capital Resources

Overview

Cash and cash equivalents were $89.2 million at October 2, 2011 and $73.3 million at December 31, 2010. Total debt on October 2, 2011 was $89.7 million, compared to $70.0 million at December 31, 2010, as we increased debt primarily to fund domestic working capital requirements. Total debt as a percentage of total capitalization was 23.6% at the end of the third quarter of 2011, compared with 20.3% at December 31, 2010. Total debt as a percentage of total capitalization is defined as the sum of notes payable and long-term debt as a percentage of total debt and shareholders equity.

Working capital increased by $24.2 million through the third quarter of 2011 versus year-end 2010, primarily due to increases in cash and inventory of $15.9 million and $14.5 million, respectively, partially offset by a decrease in accounts receivable of $5.6 million.

Cash Flow

Operating Activities

Net cash provided by operating activities was $13.4 million during the first nine months of 2011. Components of net cash provided by operating activities included net earnings of $15.1 million, non-cash adjustments of depreciation and amortization expense of $13.2 million, amortization of retirement benefits of $4.4 million and equity-based compensation expense of $3.4 million which were partially offset by a change in our prepaid pension assets of $6.5 million and change in all other assets and liabilities of $16.1 million. The net changes in assets and liabilities were primarily due to increased inventories of $14.2 million, decreased accounts payable and accrued liabilities of $4.8 million, and increased other current assets of $1.8 million, which were partially offset by decreased accounts receivable of $6.6 million.

Net cash provided by operating activities was $8.1 million during the first nine months of 2010. Components of net cash provided by operating activities included net earnings of $17.2 million and depreciation and amortization expense of $13.2 million, partially offset by net changes in assets and liabilities of $22.0 million and an increase in prepaid pension asset of $6.0 million. The changes in assets and liabilities were primarily due to increased inventories of $21.6 million and increased accounts receivable of $17.9 million partially offset by increased accounts payable and accrued liabilities of $20.2 million, all to support higher net sales.

Investing Activities

Net cash used in investing activities for the first nine months of 2011 was $13.0 million, of which $10.2 million was for capital expenditures and $2.9 million was for the acquisition of certain assets of Fordahl SA.

Net cash used in investing activities for the first nine months of 2010 was $9.5 million, primarily for capital expenditures of $10.5 million, partially offset by proceeds of $1.5 million received from the net sales of an idle facility and undeveloped land.

Financing Activities

Net cash provided by financing activities for the first nine months of 2011 was $16.0 million, consisting primarily of a net increase in long-term debt of $19.7 million, offset by $3.1 million in dividend payments. The additional debt was primarily used to meet domestic working capital requirements.

Net cash provided by financing activities for the first nine months of 2010 was $23.7 million, consisting primarily of a net increase in long-term debt of $26.7 million, offset by $3.1 million in dividend payments. The additional debt was primarily used to meet usual working capital requirements as net sales increased.

Table of Contents

Capital Resources

Refer to Note E, Debt, to our unaudited consolidated financial statements for further discussion.

Long-term debt was comprised of the following:

($ in thousands)	**October 2, 2011**	**December 31, 2010**
Revolving credit agreement, weighted-average interest rate of 1.9% (2011), and 1.1% (2010) due in 2015	**$ 89,700**	$ 70,000

Our principal sources of liquidity have been cash flow from operations and from our credit agreements. We historically have accessed various funding sources, including short-term and long-term unsecured bank lines of credit as well as the debt markets in the United States. We expect to have sufficient sources of liquidity to meet our future funding needs due to the multiple funding sources that have been, and continue to be, available to us.

On November 18, 2010, we entered into a $150 million, unsecured revolving credit agreement. Under the terms of the revolving credit agreement, we can expand the credit facility to $200 million, subject to participating banks approval. There was $89.7 million and $70.0 million outstanding under the revolving credit agreement at October 2, 2011 and December 31, 2010, respectively. At October 2, 2011 and December 31, 2010, we had $57.5 million and $77.2 million, respectively, available under this agreement, net of standby letters of credit of $2.8 million. Interest rates on the revolving credit agreement fluctuate based upon the London Interbank Offered Rate 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 0.375 percent per annum at October 2, 2011. The revolving credit agreement requires, among other things, that we comply with a maximum total leverage ratio and a minimum fixed charge coverage ratio. Our 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 October 2, 2011. The revolving credit agreement requires us to deliver quarterly financial statements, annual financial statements, auditors certifications and compliance certificates within a specified number of days after the end of a quarter and year. Additionally, the revolving agreement contains restrictions limiting our ability to: dispose of assets; incur certain additional debt; repay other debt or amend subordinated debt instruments; create liens on assets; make investments, loans or advances; make acquisitions or engage in mergers or consolidations; engage in certain transactions with our subsidiaries and affiliates; and make stock repurchases and dividend payments. The revolving credit agreement expires in November 2015.

In May 2008, our Board of Directors authorized a program to repurchase up to one million shares of our common stock in the open market at a maximum price of $13.00 per share. The authorization has no expiration. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During the second quarter of 2011, 35,500 shares were repurchased at a cost of approximately $0.3 million or $9.19 per share under this program. During the third quarter of 2011, 111,104 shares were repurchased at a cost of approximately $1.0 million or $9.10 per share under this program. No shares were repurchased under this program in 2010.

We have historically funded our capital and operating needs primarily through cash flows from operating activities, supported by available credit under our bank credit agreements. We believe that expected positive cash flows from operating activities and available borrowings under our current credit agreements will be adequate to fund our working capital, capital expenditures and debt service requirements for at least the next twelve months. However, we may choose to pursue additional equity and/or debt financing to provide additional liquidity and/or fund acquisitions.

Table of Contents

Recent Accounting Pronouncements

ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 amends Accounting Standards Codification Topic 820, Fair Value Measurements (ASC 820) by: (1) clarifying that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of non-financial assets; (2) allowing a reporting entity to measure the fair value of the net asset or net liability position in a manner consistent with how market participants would price the net risk position, if certain criteria are met; (3) providing a framework for considering whether a premium or discount can be applied in a fair value measurement; (4) providing that the fair value of an instrument classified in a reporting entity s shareholders equity is estimated from the perspective of a market participant that holds the identical item as an asset; and (5) expanding the qualitative and quantitative fair value disclosure requirements. The expanded disclosures include, for Level 3 items, a description of the valuation process and a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs if a change in those inputs would result in a significantly different fair value measurement. ASU 2011-4 also requires disclosures about the highest-and-best-use of a non-financial asset when this use differs from the asset s current use and the reasons for such a difference. In addition, this ASU amends Accounting Standards Codification 820, Fair Value Measurements, to require disclosures to include any transfers between Level 1 and Level 2 of the fair value hierarchy. These amendments are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The amendments of ASU 2011-04, when adopted, are not expected to have a material impact on our consolidated financial statements.

ASU 2011-05, Presentation of Comprehensive Income

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, and the second statement would include components of other comprehensive income. This ASU does not change the items that must be reported in other comprehensive income. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The provisions of ASU 2011-05, when adopted, are not expected to have a material impact on our consolidated financial statements.

ASU 2011-08, Testing Goodwill for Impairment

In September 2011, the FASB issued Accounting Standards Update 2011-08, Testing Goodwill for Impairment (ASU 2011-08) to simplify how both public and non-public entities test goodwill for impairment. The amended guidance gives entities the option to qualitatively assess whether the two-step goodwill impairment test under Accounting Standards Codification Topic 350-20, Intangibles Goodwill and Other Goodwill (ASC 350-20) must be performed. Under ASU 2011-08, entities can assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If entities elect to perform the qualitative assessment and determine that it is not more than likely than not that the reporting unit s fair value is less than the carrying amount, no further evaluation is necessary. However, if entities choose not to perform the qualitative assessment or determines through the qualitative assessment that the reporting unit s fair value is more likely than not less than its carrying amount, then entities would perform Step 1 of the goodwill impairment test under ASC 350-20. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years, although early adoption is permitted. The provisions of ASU 2011-08, when adopted, are not expected to have a material impact on our consolidated financial statements.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no other material changes in our market risk since December 31, 2010.

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 October 2, 2011.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting for the quarter ended October 2, 2011 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We manufacture accelerator pedals for a number of automobile manufacturers, including subsidiaries of Toyota Motor Corporation (Toyota). In January 2010, Toyota initiated a recall of certain models of vehicles containing pedals manufactured by CTS. The pedal recall and associated events have led to us being named as a co-defendant with Toyota in certain litigation.

In February 2010, we entered into an agreement with Toyota whereby Toyota agreed that it will indemnify, defend, and hold us harmless from, and the parties will cooperate in the defense of, certain third-party civil claims and actions that are filed or asserted in the United States or Canada and that arise from or relate to alleged incidents of unintended acceleration of Toyota and Lexus vehicles. If it is determined that CTS acted negligently in selecting materials or processes where we had sole control over the selection process, in failing to meet Toyota s specifications, or in making unapproved changes in component design or materials, and such negligence caused or contributed to a claim, we will be responsible for any judgment that may be rendered against us individually, or any portion of a judgment that may be allocated to us, but limited only to the extent of insurance collected from our insurers. Toyota would remain responsible to defend CTS in these actions and would remain responsible for any balance of the remaining liability over amounts recovered by insurance. The agreement also does not cover costs or liabilities in connection with government investigations, government hearings, or government recalls.

Presently, we have been served process and named as co-defendant with Toyota in approximately thirty open lawsuits; we have been dismissed as a defendant from an additional twenty nine lawsuits. The claims brought generally fall into two categories, those that allege sudden unintended acceleration of Toyota vehicles led to injury or death, and those that allege economic harm to owners of Toyota vehicles related to vehicle defects. Some suits combine elements of both. Claims include demands for compensatory and special damages. To date, the only actions filed where we are aware we have been named as a co-defendant are civil actions filed in the Unites States or Canada. All currently open lawsuits are subject to the indemnification agreement described above. Some of these lawsuits arise out of incidents involving models for which we do not manufacture the pedal, such as all Lexus models, the Toyota Prius, and the Toyota Tacoma, or for which we manufacture only a portion of the pedals, such as the Toyota Camry. Many lawsuits have been consolidated in federal multidistrict litigation in the United States District Court, Southern District of California, though some remain in various other courts.

Item 1A. Risk Factors

There have been no significant changes to our risk factors since December 31, 2010.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the repurchases of CTS common stock made by the Company during the three-month period ending October 2, 2011:

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Plans or Programs *(1)*	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
				977,500
June 21, 2011 June 30, 2011	35,500	$ 9.19	35,500	942,000
July 1, 2011 October 2, 2011	111,104	$ 9.10	111,104	830,896
Total	146,604		146,604	

Item 3. Default Upon Senior Securities

Not applicable

Item 4. (Removed and Reserved)

Not applicable

Item 5. Other Information

Not applicable

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.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

*

XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

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

/s/ Richard G. Cutter III

Richard G. Cutter III

Vice President, Law and Business Affairs,

Corporate Secretary

Dated: October 26, 2011

CTS Corporation

/s/ Thomas A. Kroll

Thomas A. Kroll

Vice President and Chief Financial Officer

Dated: October 26, 2011