CTS CORP
Form 10-Q
July 26, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended July 3, 2011

OR

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

For the Transition Period from __________ to __________

Commission File Number: 1-4639

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 þ No o

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

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of July 22, 2011: 34,420,834.

CTS CORPORATION AND SUBSIDIARIES
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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		Six Months Ended	
	July 3, 2011	**July 4, 2010**	**July 3, 2011**	**July 4, 2010**
Net sales	$ **146,919**	$ 138,851	$ **298,437**	$ 268,254
Costs and expenses:				
Cost of goods sold	**119,051**	108,511	**241,409**	207,435
Selling, general and administrative expenses	**18,057**	18,283	**36,429**	37,832
Research and development expenses	**4,590**	4,316	**9,619**	8,899
Restructuring charge Note M	**694**		**694**	
Operating earnings	**4,527**	7,741	**10,286**	14,088
Other (expense)/income:				
Interest expense	**(511)**	(228)	**(1,003)**	(463)
Interest income	**276**	81	**472**	134
Other	**743**	(337)	**1,873**	(821)
Total other income/(expense)	**508**	(484)	**1,342**	(1,150)
Earnings before income taxes	**5,035**	7,257	**11,628**	12,938
Income tax expense	**903**	1,365	**2,380**	2,615
Net earnings	$ **4,132**	$ 5,892	$ **9,248**	$ 10,323
Net earnings per share Note J				
Basic	$ **0.12**	$ 0.17	$ **0.27**	$ 0.30
Diluted	$ **0.12**	$ 0.17	$ **0.26**	$ 0.30
Cash dividends declared per share	$ **0.03**	$ 0.03	$ **0.06**	$ 0.06
Average common shares outstanding:				
Basic	**34,375**	34,048	**34,334**	34,001
Diluted	**35,025**	34,874	**35,050**	34,811

See notes to unaudited condensed consolidated financial statements.

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

	July 3, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 75,056**	$ 73,315
Accounts receivable, less allowances (2011 - $1,253; 2010- $1,269)	**87,792**	95,930
Inventories, net Note D	**88,602**	76,885
Other current assets	**23,903**	20,525
Total current assets	**275,353**	266,655
Property, plant and equipment, less accumulated depreciation (2011 - $242,471; 2010 - $244,662)	**79,211**	78,213
Other Assets		
Prepaid pension asset	**48,377**	44,075
Goodwill Note L	**500**	500
Other intangible assets, net Note L	**31,227**	31,432
Deferred income taxes	**59,050**	59,956
Other	**1,705**	1,753
Total other assets	**140,859**	137,716
Total Assets	**$ 495,423**	$ 482,584
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Notes payable	**$ 246**	$
Accounts payable	**77,087**	75,384
Accrued liabilities	**40,718**	44,716
Total current liabilities	**118,051**	120,100
Long-term debt Note E	**74,500**	70,000
Other long-term obligations	**17,129**	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; 54,788,197 shares issued at July 3, 2011 and 54,517,560 shares issued at December 31, 2010	**287,635**	285,515
Additional contributed capital	**37,808**	37,775
Retained earnings	**342,709**	335,524
Accumulated other comprehensive loss	**(85,074)**	(87,555)
	583,078	571,259
	(297,335)	(297,009)

Cost of common stock held in treasury Note K (2011 20,356,259 and 2010 20,320,759 shares)		
Total shareholders equity	**285,743**	274,250
Total Liabilities and Shareholders Equity	**$ 495,423**	$ 482,584

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended	
	July 3, 2011	**July 4, 2010**
Cash flows from operating activities:		
Net earnings	$ **9,248**	10,323
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**8,766**	8,832
Prepaid pension asset	**(4,302)**	(3,905)
Equity-based compensation Note B	**2,361**	2,167
Restructuring charge Note M	**694**	
Amortization of retirement benefit adjustments Note F	**2,542**	2,500
Other	**(1,481)**	(538)
Changes in assets and liabilities, net of acquisitions		
Accounts receivable	**10,188**	(13,770)
Inventories	**(10,633)**	(14,675)
Other current assets	**(1,369)**	(1,683)
Accounts payable and accrued liabilities	**(7,174)**	17,095
Total adjustments	**(408)**	(3,977)
Net cash provided by operating activities	**8,840**	6,346
Cash flows from investing activities:		
Payment for acquisition, net of cash acquired	**(2,930)**	
Earnout payment related to a 2008 acquisition		(500)
Capital expenditures	**(6,526)**	(6,207)
Proceeds from sales of assets		960
Net cash used in investing activities	**(9,456)**	(5,747)
Cash flows from financing activities:		
Payments of long-term debt Note E	**(1,989,500)**	(1,565,150)
Proceeds from borrowings of long-term debt Note E	**1,994,000**	1,580,650
Payments of short-term notes payable	**(2,203)**	(1,631)
Proceeds from borrowings of short-term notes payable	**2,449**	1,631
Purchase of treasury stock	**(326)**	
Dividends paid	**(2,056)**	(2,038)
Exercise of stock options	**472**	92
Other	**204**	(24)
Net cash provided by financing activities	**3,040**	13,530
Effect of exchange rate on cash and cash equivalents	**(683)**	(62)

Net increase in cash and cash equivalents		**1,741**		14,067
Cash and cash equivalents at beginning of year		**73,315**		51,167
Cash and cash equivalents at end of period	$	**75,056**	$	65,234
Supplemental cash flow information				
Cash paid during the period for:				
Interest	$	**885**	$	398
Income taxes net	$	**2,060**	$	2,303

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	**July 4, 2010**	**July 3, 2011**	**July 4, 2010**
Net earnings	**$ 4,132**	$ 5,892	**$ 9,248**	$ 10,323
Other comprehensive earnings/(loss):				
Cumulative translation adjustment	**7**	(203)	**995**	(1,636)
Amortization of retirement benefit adjustments (net of tax)	**750**	687	**1,486**	1,416
Comprehensive earnings	**$ 4,889**	$ 6,376	**$ 11,729**	$ 10,103

See notes to unaudited condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
July 3, 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 July 3, 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 six months ended July 3, 2011 and July 4, 2010 relating to these plans:

	Three Months Ended		**Six Months Ended**	
($ in thousands)	**July 3, 2011**	**July 4, 2010**	**July 3, 2011**	**July 4, 2010**
Stock options	**$**	$ 1	**$**	$ 3
Restricted stock units	**1,181**	905	**2,361**	2,164
Total	**$ 1,181**	$ 906	**$ 2,361**	$ 2,167

The following table summarizes the status of these plans as of July 3, 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	505,500	75,350
Restricted stock units outstanding	543,459	146,195		
Options exercisable		257,200	505,500	75,350
Awards available for grant	2,512,140	268,500		

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 July 3, 2011 and July 4, 2010, and changes during the six-month periods then ended, is presented below:

	July 3, 2011			**July 4, 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	**(195,750)**	**$**	**21.99**	(43,375)	$	44.79
Outstanding at end of period	**838,050**	**$**	**10.75**	1,118,713	$	12.61
Exercisable at end of period	**838,050**	**$**	**10.75**	1,118,713	$	12.61

The total intrinsic value of share options exercised during the six-month periods ended July 3, 2011 and July 4, 2010 were $209,000 and $30,000, respectively. The weighted average remaining contractual life of options outstanding and options exercisable at July 3, 2011 and July 4, 2010 were 2.2 years and 2.8 years, respectively. The aggregate intrinsic value of options outstanding and options exercisable at July 3, 2011 and July 4, 2010 were approximately $378,000 and $341,000, respectively. There were no unvested stock options at July 3, 2011.

The following table summarizes information about stock options outstanding at July 3, 2011:

	Options Outstanding				**Options Exercisable**		
Range of Exercise Prices	**Number Outstanding at 7/3/11**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**		**Number Exercisable at 7/3/11**	**Weighted Average Exercise Price**	
$7.70 11.11	616,250	2.22	$	9.53	616,250	$	9.53
$13.68 16.24	221,800	2.16	$	14.13	221,800	$	14.13

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 July 3, 2011 and July 4, 2010, and changes during the six-month periods then ended is presented below:

	July 3, 2011	**July 4, 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	**219,100**	**$ 11.89**	271,500	$ 7.52
Converted	**(297,104)**	**$ 8.52**	(280,495)	$ 8.97
Forfeited	**(39,943)**	**$ 8.89**	(13,920)	$ 6.62
Outstanding at end of period	**689,654**	**$ 9.42**	831,830	$ 8.34
Weighted-average remaining contractual life	**6.7 years**		5.32 years	

CTS recorded compensation expense of approximately $691,000 and $1,412,000 related to service-based restricted stock units during the three and six month periods ended July 3, 2011, respectively. CTS recorded compensation expense of approximately $657,000 and $1,544,000 related to service-based restricted stock units during the three and six month periods ended July 4, 2010, respectively.

As of July 3, 2011, there was $2.6 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 $177,000 and $343,000 related to performance-based restricted stock units during the three and six month periods ended July 3, 2011, respectively. CTS recorded compensation expense of approximately $74,000 and $177,000 related to performance-based restricted stock units during the three and six month periods ended July 4, 2010, respectively. As of July 3, 2011 there was approximately $748,000 of unrecognized compensation cost related to performance-based RSUs. That cost is expected to be recognized over a weighted-average period of 1.0 year.

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 $313,000 and $606,000 related to market-based restricted stock units during the three and six month periods ended July 3, 2011, respectively. CTS recorded compensation

expense of approximately $173,000 and $441,000 related to market-based restricted stock units during the three and six month periods ended July 4, 2010, respectively. As of July 3, 2011, there was approximately $1.3 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 year.

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:

	July 3,	**December 31,**

($ in thousands)	**2011**	**2010**
Finished goods	**$ 11,606**	$ 8,594
Work-in-process	**19,009**	16,394
Raw materials	**57,987**	51,897
Total inventories, net	**$ 88,602**	$ 76,885

NOTE E Debt

Long-term debt was comprised of the following:

($ in thousands)	**July 3, 2011**	**December 31, 2010**
Revolving credit agreement, weighted-average interest rate of 1.8% (2011), and 1.1% (2010) due in 2015	$ **74,500**	$ 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 $74.5 million and $70.0 million outstanding under the revolving credit agreement at July 3, 2011 and December 31, 2010, respectively. At July 3, 2011 and December 31, 2010, CTS had $72.7 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 July 3, 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 July 3, 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 six-months ended July 3, 2011 and July 4, 2010 include the following components:

	Three Months Ended		**Six Months Ended**	
($ in thousands)	**July 3, 2011**	**July 4, 2010**	**July 3, 2011**	**July 4, 2010**
PENSION PLANS				
Service cost	**$ 722**	$ 744	**$ 1,444**	$ 1,491
Interest cost	**3,230**	3,310	**6,457**	6,642
Expected return on plan assets [(1)]	**(6,062)**	(6,079)	**(12,121)**	(12,162)
Settlement cost				234
Amortization of prior service cost	**153**	153	**306**	510
Amortization of loss	**1,120**	991	**2,239**	1,990
Net pension income	**$ (837)**	$ (881)	**$ (1,675)**	$ (1,295)

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

	Three Months Ended		**Six Months Ended**	
($ in thousands)	**July 3, 2011**	**July 4, 2010**	**July 3,**	**July 4, 2010**

		2011		
OTHER POSTRETIREMENT BENEFIT PLAN				
Service cost	$ **4**	$ 3	$ **8**	$ 6
Interest cost	**72**	75	**144**	150
Amortization of gain	**(1)**		**(3)**	
Postretirement expense	$ **75**	$ 78	$ **149**	$ 156

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.

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. Management evaluates performance based upon segment operating earnings before interest expense, interest income, non-operating income/(expense), and income tax expense.

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

($ in thousands)	**EMS**	**Components and Sensors**	**Total**
Second Quarter of 2011			
Net sales to external customers	**$ 78,882**	**$ 68,037**	**$ 146,919**
Segment operating earnings	**$ 370**	**$ 4,851**	**$ 5,221**
Total assets	**$ 139,582**	**$ 355,841**	**$ 495,423**
Second Quarter of 2010			
Net sales to external customers	$ 66,624	$ 72,227	$ 138,851
Segment operating (loss)/earnings	$ (201)	$ 7,942	$ 7,741
Total assets	$ 128,248	$ 319,199	$ 447,447
First Six Months of 2011			
Net sales to external customers	**$ 158,369**	**$ 140,068**	**$ 298,437**
Segment operating earnings	**$ 373**	**$ 10,607**	**$ 10,980**
Total assets	**$ 139,582**	**$ 355,841**	**$ 495,423**
First Six Months of 2010			
Net sales to external customers	$ 122,583	$ 145,671	$ 268,254
Segment operating (loss)/earnings	$ (2,879)	$ 16,967	$ 14,088
Total assets	$ 128,248	$ 319,199	$ 447,447

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

	Three Months Ended		**Six Months Ended**	
($ in thousands)	**July 3, 2011**	**July 4, 2010**	**July 3, 2011**	**July 4, 2010**
Total segment operating earnings	**$ 5,221**	$ 7,741	**$ 10,980**	$ 14,088
Restructuring charges	**(694)**		**(694)**	
Interest expense	**(511)**	(228)	**(1,003)**	(463)
Interest income	**276**	81	**472**	134
Other income/(expense)	**743**	(337)	**1,873**	(821)

Earnings before income taxes	**$ 5,035**	$ 7,257	**$ 11,628**	$ 12,938

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 $1.4 million of inventory and $0.3 million of machinery and equipment. CTS has property insurance coverage with a $100,000 deductible that is expected to 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 July 3, 2011, CTS wrote-off approximately $0.3 million of net book value of machinery and equipment, $1.4 million of inventory, deferred $0.8 million of recoverable fixed costs and $0.3 million of recoverable building restoration costs to other receivable. The total fire-related other receivable was $2.8 million as of July 3, 2011 and was included in Other Current Assets in CTS Unaudited Condensed Consolidated Balance Sheets.

NOTE I Fair Value Measurement

The table below summarizes the financial liability that was measured at fair value on a recurring basis as of July 3, 2011:

($ in thousands)	**Carrying Value at July 3, 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 July 3, 2011**
Long-term debt	$ 74,500	$	$ 74,500	$	$

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 six-month periods ended July 3, 2011 and July 4, 2010.

($ in thousands, except per share amounts)	Net Earnings (Numerator)		Shares (in thousands) (Denominator)	Per Share Amount	
Second Quarter 2011					
Basic EPS	$	**4,132**	**34,375**	$	**0.12**
Effect of dilutive securities:					
Equity-based compensation plans			**650**		
Diluted EPS	$	**4,132**	**35,025**	$	**0.12**
Second Quarter 2010					
Basic EPS	$	5,892	34,048	$	0.17
Effect of dilutive securities:					
Equity-based compensation plans			826		
Diluted EPS	$	5,892	34,874	$	0.17
First Six Months of 2011					
Basic EPS	$	**9,248**	**34,334**	$	**0.27**
Effect of dilutive securities:					
Equity-based compensation plans			**716**		
Diluted EPS	$	**9,248**	**35,050**	$	**0.26**
First Six Months of 2010					
Basic EPS	$	10,323	34,001	$	0.30
Effect of dilutive securities:					
Equity-based compensation plans			810		
Diluted EPS	$	10,323	34,811	$	0.30

The following table shows the potentially dilutive securities which have been excluded from the three and six-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		Six Months Ended	
(Number of Shares in Thousands)	**July 3, 2011**	**July 4, 2010**	**July 3, 2011**	**July 4, 2010**

Stock options where the assumed proceeds exceed the average market price	**402**	602	**402**	602

NOTE K Treasury Stock

Common stock held in treasury totaled 20,356,259 shares with a cost of $297.3 million at July 3, 2011 and 20,320,759 with a cost of $297.0 million at December 31, 2010. Approximately 6.5 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. 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:

	July 3, 2011		December 31, 2010	
($ in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets:				
Customer lists/relationships	**$ 51,477**	**$ (21,189)**	$ 51,084	$ (19,999)
Patents	**10,319**	**(10,319)**	10,319	(10,319)
Other intangibles	**1,190**	**(251)**	500	(153)
Total	**62,986**	**(31,759)**	61,903	(30,471)
Goodwill	**500**		500	
Total other intangible assets and goodwill	**$ 63,486**	**$ (31,759)**	$ 62,403	$ (30,471)

Of the net intangible assets at July 3, 2011, $6.8 million relates to the EMS segment and $24.9 million relates to the Components and Sensors segment. CTS recorded amortization expense of $0.7 million and $1.3 million during the three and six-month periods ended July 3, 2011, respectively. CTS recorded amortization expense of $0.6 million and $1.3 million during the three and six-month periods ended July 4, 2010, respectively. CTS estimates remaining amortization expense of $1.3 million in 2011, $2.5 million in 2012 through 2013, $2.4 million in years 2014 through 2015 and $20.1 million thereafter.

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 July 3, 2011:

($ in millions)	**April 2011 Plan**	**Planned Costs**	**Actual incurred through July 3, 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.

The following table displays the restructuring reserve activity related to the realignment for the period ended July 3, 2011:

($ in millions)	**April 2011 Plan**
Restructuring liability at January 1, 2011	**$**
Restructuring charge	**0.7**
Cost paid	**(0.4)**
Restructuring liability at July 3, 2011	**$ 0.3**

NOTE N 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.

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. 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: 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; 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 second quarter of 2011 of $146.9 million were reported through two segments, Components and Sensors and EMS. Net sales increased by $8.1 million, or 5.8%, in the second quarter of 2011 from the second quarter of 2010. Net sales in the Components and Sensors segment decreased by $4.2 million, or 5.8% versus the second quarter of 2010, while net sales in the EMS segment increased by $12.3 million, or 18.4%. The decrease in net sales in our Components and Sensor segment was primarily driven by lower sales in our automotive market of approximately $6.3 million as a result of production disruptions caused by the March 2011 earthquake in Japan, partially offset by an increase of $2.0 million in other areas of our automotive market.

Gross margin as a percent of net sales was 19.0% in the second quarter of 2011 compared to 21.9% in the second quarter of 2010 due to a shift in segment mix as the Components and Sensors segment percent of total company net sales declined to 46.3% from 52.0% in the same period 2010. The reduction in gross margin also resulted from higher commodity and precious metal prices as well as program launch costs in preparation for new product introductions.

Selling, general and administrative (SG&A) expenses were $18.1 million, or 12.3% of net sales, in the second quarter of 2011 versus $18.3 million, or 13.2% of net sales, in the second quarter of 2010.

Research and development (R&D) expenses were $4.6 million, or 3.1% of net sales, in the second quarter of 2011 compared to $4.3 million, or 3.1% of net sales, in the second quarter of 2010. The increase was primarily to continue to develop and launch new growth initiatives.

During the quarter we restructured certain operations to further improve our cost structure. The cost of these actions was $0.7 million.

Interest and other income was $0.5 million in the second quarter of 2011 compared to $0.5 million expense in the same quarter of 2010. The year-over-year improvement resulted primarily from foreign exchange gains.

Income tax expense and the effective tax rate of the second quarter of 2011 were $0.9 million and 17.9%, respectively, versus $1.4 million and 18.8% in the same quarter of 2010.

Net earnings were $4.1 million, or $0.12 per diluted share, in the second quarter of 2011 compared with $5.9 million, or $0.17 per diluted share, in the second quarter of 2010.

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

Results of Operations

Comparison of Second Quarter 2011 and Second 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 July 3, 2011 and July 4, 2010:

($ in thousands)	**Components & Sensors**	**EMS**	**Consolidated Total**
Second Quarter 2011			
Net sales	**$ 68,037**	**$ 78,882**	**$ 146,919**
Segment operating earnings	**$ 4,851**	**$ 370**	**$ 5,221**
% of Net sales	**7.1%**	**0.5%**	**3.6%**
Second Quarter 2010			
Net sales	$ 72,227	$ 66,624	$ 138,851
Segment operating earnings/(loss)	$ 7,942	$ (201)	$ 7,741
% of Net sales	11.0%	(0.3)%	5.6%

Net sales in the Components and Sensors segment decreased $4.2 million, or 5.8%, from the second quarter of 2010. The decrease in net sales was primarily driven by lower sales in our automotive market of approximately $6.3 million as a result of production disruptions caused by the March 2011 earthquake in Japan, partially offset by an increase of $2.0 million in other areas of our automotive market. These earthquake-related sales are expected to be partially recovered in the second half of 2011.

The Components and Sensors segment operating earnings were $4.9 million in the second quarter of 2011 compared to $7.9 million in the second quarter of 2010. The unfavorable earnings change resulted primarily from lower net sales, higher commodity prices, and higher research and development costs.

Net sales in the EMS segment increased $12.3 million, or 18.4%, in the second quarter of 2011 from the second quarter of 2010. The increase in net sales was due to higher net sales of $6.5 million in the industrial market, $2.6 million in the computer market, $2.1 million in the defense and aerospace market, $0.5 million in the medical market, and $0.5 million in the communications market.

EMS segment operating earnings were $0.4 million in the second quarter of 2011 versus an operating loss of $0.2 million in the second quarter of 2010 primarily due to higher net sales.

Total Company Discussion

The following table highlights changes in significant components of the Unaudited Condensed Consolidated Statements of Earnings for the quarters ended July 3, 2011 and July 4, 2010:

	Quarter ended		
($ in thousands, except net earnings per share)	**July 3, 2011**	**July 4, 2010**	**Increase (Decrease)**
Net sales	$ **146,919**	$ 138,851	$ 8,068
Gross margin	$ **27,868**	$ 30,340	$ (2,472)
% of net sales	**19.0%**	21.9%	(2.9)%
Selling, general and administrative expenses	$ **18,057**	$ 18,283	$ (226)
% of net sales	**12.3%**	13.2%	(0.9)%
Research and development expenses	$ **4,590**	$ 4,316	$ 274
% of net sales	**3.1%**	3.1%	%
Restructuring charge	$ **694**	$	$ 694
Operating earnings	$ **4,527**	$ 7,741	$ (3,214)
% of net sales	**3.1%**	5.6%	(2.5)%
Interest and other income/(expense)	$ **508**	$ (484)	$ 992
% of net sales	**0.3%**	(0.3)%	0.6%
Income tax expense	$ **903**	$ 1,365	$ (462)
Net earnings	$ **4,132**	$ 5,892	$ (1,760)
% of net sales	**2.8%**	4.2%	(1.4)%
Net earnings per diluted share	$ **0.12**	$ 0.17	$ (0.05)

Net sales of $146.9 million in the second quarter of 2011 increased $8.1 million, or 5.8%, from the second quarter of 2010 attributable to higher EMS net sales of $12.3 million, offset by lower Components and Sensors net sales of $4.2 million. The decrease in net sales in our Components and Sensor segment was primarily driven by lower sales in our automotive market of approximately $6.3 million as a result of production disruptions caused by the March 2011 earthquake in Japan, partially offset by an increase of $2.0 million in other areas of our automotive market.

Gross margin as a percent of net sales was 19.0% in the second quarter of 2011 compared to 21.9% in the second quarter of 2010. Approximately half of the reduction was due to a shift in segment mix as the Components and Sensors segment percent of total company net sales declined to 46.3% from 52.0% in the same period 2010. The reduction in gross margin also resulted from higher commodity and precious metal prices as well as program launch costs in preparation for new product introductions.

SG&A expenses were $18.1 million, or 12.3% of net sales, in the second quarter of 2011 versus $18.3 million, or 13.2% of net sales, in the second quarter of 2010. SG&A expenses as a percentage of net sales improved, reflecting disciplined spending on higher net sales.

R&D expenses were $4.6 million, or 3.1% of net sales, in the second quarter of 2011 compared to $4.3 million, or 3.1% of net sales, in the second quarter 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.

Operating earnings were $4.5 million in the second quarter of 2011 compared to $7.7 million in the second quarter of 2010. The decrease was primarily due to the reasons discussed above. Operating earnings in the second quarter of 2011 also include a restructuring charge of $0.7 million.
Interest and other income was $0.5 million in the second quarter of 2011 versus an expense of $0.5 million in the same quarter of 2010 primarily due to foreign exchange gains.
The effective tax rate for second quarter 2011 was 17.9% compared to 18.8% in the second quarter of 2010. The decrease in the effective tax rate was primarily due to changes in the mix of earnings by jurisdiction and discrete items.
Net earnings were $4.1 million, or $0.12 per diluted share, in the second quarter of 2011 compared with $5.9 million, or $0.17 per diluted share, in the second quarter of 2010.
Comparison of First Six Months 2011 and First Six Months 2010
Segment Discussion
The following table highlights the segment results for the six-month periods ended July 3, 2011 and July 4, 2010:

($ in thousands)	**Components & Sensors**	**EMS**	**Consolidated Total**
First Six Months 2011			
Net sales	**$ 140,068**	$ **158,369**	**$ 298,437**
Segment operating earnings	**$ 10,607**	$ **373**	**$ 10,980**
% of Net sales	**7.6**%	**0.2**%	**3.7**%
First Six Months 2010			
Net sales	$ 145,671	$ 122,583	$ 268,254
Segment operating earnings/(loss)	$ 16,967	$ (2,879)	$ 14,088
% of Net sales	11.6%	(2.3)%	5.3%

Net sales in the Components and Sensors segment decreased $5.6 million, or 3.9% from the first six months of 2010. The decrease in net sales was primarily driven by lower net sales in our automotive market of approximately $6.3 million as a result of production disruptions caused by the March 2011 earthquake in Japan and lower service parts sales, partially offset by higher net sales in electronic components of $1.4 million primarily driven by higher distribution sales.
The Components and Sensors segment operating earnings were $10.6 million in the first six months of 2011 versus $17.0 million in the first six months of 2010. The unfavorable earnings change resulted primarily from lower net sales, higher commodity prices, and higher research and development costs.
Net sales in the EMS segment increased $35.8 million, or 29.2%, in the first six months of 2011 versus the first six months of 2010. The increase in net sales was due to higher net sales of $11.0 million in the industrial market, $10.5 million in the defense and aerospace market, $6.7 million in the communications market, $6.0 million in the computer market, and $1.5 million in the medical market.
EMS segment operating earnings were $0.4 million in the first six months of 2011 versus an operating loss of $2.9 million in the first six months of 2010. The favorable earnings change was primarily due to higher sales volume.
Total Company Discussion
The following table highlights changes in significant components of the Unaudited Condensed Consolidated Statements of Earnings for the six-month periods ended July 3, 2011 and July 4, 2010:

($ in thousands, except net earnings per share)	Six months ended July 3, 2011	July 4, 2010	Increase (Decrease)
Net sales	$ **298,437**	$ 268,254	$ 30,183
Gross margin	$ **57,028**	$ 60,819	$ (3,791)
% of net sales	**19.1%**	22.7%	(3.6)%
Selling, general and administrative expenses	$ **36,429**	$ 37,832	$ (1,403)
% of net sales	**12.2%**	14.1%	(1.9)%
Research and development expenses	$ **9,619**	$ 8,899	$ 720
% of net sales	**3.2%**	3.3%	(0.1)%
Restructuring charge	$ **694**	$	$ 694
Operating earnings	$ **10,286**	$ 14,088	$ (3,802)
% of net sales	**3.4%**	5.3%	(1.9)%
Interest and other income/(expense)	$ **1,342**	$ (1,150)	$ 2,492
% of net sales	**0.4%**	(0.4)%	0.8%
Income tax expense	$ **2,380**	$ 2,615	$ (235)
Net earnings	$ **9,248**	$ 10,323	$ (1,075)
% of net sales	**3.1%**	3.8%	(0.7)%
Net earnings per diluted share	$ **0.26**	$ 0.30	$ (0.04)

Net sales of $298.4 million in the first six months of 2011 increased $30.2 million, or 11.3%, from the first six months of 2010 attributable to higher EMS segment net sales of $35.8 million, offset by lower Component and Sensor segment net sales of $5.6 million. The decrease in net sales in our Components and Sensors segment was primarily driven by lower net sales in our automotive market of approximately $6.3 million as a result of production disruptions caused by the March 2011 earthquake in Japan and lower service parts sales, partially offset by higher net sales in electronic components of $1.4 million primarily driven by higher distribution sales.

Gross margin as a percent of net sales was 19.1% in the first six months of 2011, compared to 22.7% in the first six months of 2010, primarily due to a shift in segment mix as the percent of total company net sales from the Components and Sensors segment declined to 46.9% from 54.3% in the same period 2010. The reduction in gross margin also resulted from higher commodity and precious metal prices as well as program launch costs in preparation for new product introductions.

SG&A expenses were $36.4 million, or 12.2% of net sales, in the first six months of 2011 versus $37.8 million, or 14.1% of net sales, in the first six months of 2010. SG&A expenses as a percentage of net sales improved significantly, reflecting disciplined spending on higher net sales.

R&D expenses were $9.6 million, or 3.2% of net sales, in the first six months of 2011 versus $8.9 million, or 3.3% of net sales, in the first six 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.

Operating earnings were $10.3 million in the first six months of 2011, including a restructuring charge of $0.7 million, compared to $14.1 million in the first six months of 2010. The decrease was primarily due to the reasons discussed above.

Interest and other income in the first six months of 2011 was $1.3 million versus an expense of $1.2 million in the same period of 2010 primarily due to foreign exchange gains.

The effective tax rate for the first six months of 2011 was 20.5% compared to 20.2% in the first six months of 2010. The increase in the effective tax rate was primarily due to changes in the mix of earnings by jurisdiction and discrete items.

Net earnings were $9.2 million, or $0.26 per diluted share, in the first six months of 2011 compared with $10.3 million, or $0.30 per share, in the first six months of 2010.

CTS Scotland Facility Fire

During the second quarter of 2011, a fire occurred at our Scotland EMS manufacturing facility. The fire damaged approximately $1.4 million of inventory and $0.3 million of machinery and equipment. We have property insurance coverage with a $100,000 deductible that is expected to cover the costs of repairing and/or replacing the damaged inventory and machinery and equipment. We also have business interruption insurance that is expected to cover the lost sales impact and fixed costs. Consequently, as of July 3, 2011, we wrote-off approximately $0.3 million of net book value of machinery and equipment, $1.4 million of inventory, deferred $0.8 million of recoverable fixed costs and $0.3 million of recoverable building restoration costs to other receivable. The total fire-related other receivable was $2.8 million as of July 3, 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 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

Based on our first half results and the current outlook, management maintains its guidance of full-year 2011 sales increase in the range of 9% to 13% over 2010 and full-year 2011 earnings per share in the range of $0.70 to $0.75.

Liquidity and Capital Resources

Overview

Cash and cash equivalents were $75.1 million at July 3, 2011 and $73.3 million at December 31, 2010. Total debt on July 3, 2011 was $74.7 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 20.7% at the end of the second 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 $10.7 million in the second quarter of 2011 versus year-end 2010, primarily due to increases in inventory and other current assets of $11.7 million and $3.4 million, respectively, and a decrease in other accrued liabilities of $4.0 million, partially offset by a decrease in accounts receivable of $8.1 million.

Cash Flow

Operating Activities

Net cash provided by operating activities was $8.8 million during the first six months of 2011. Components of net cash provided by operating activities included net earnings of $9.2 million, non-cash adjustments of depreciation and amortization expense of $8.8 million, amortization of retirement benefits of $2.5 million and equity-based compensation expense of $2.4 million which were partially offset by net changes in assets and liabilities of $10.5 million and prepaid pension assets of $4.3 million. The net changes in assets and liabilities were primarily due to increased inventories of $10.6 million, decreased accounts payable and accrued liabilities of $7.2 million, and increased other current assets of $1.4 million, which were partially offset by decreased accounts receivable of $10.2 million, all to support higher anticipated net sales.

Net cash provided by operating activities was $6.3 million during the first six months of 2010. Components of net cash provided by operating activities included net earnings of $10.3 million and depreciation and amortization expense of $8.8 million, which were partially offset by net changes in assets and liabilities of $13.0 million. The changes in assets and liabilities, which include the impact of foreign exchange, were primarily due to increased

inventories of $14.7 million and increased accounts receivable of $13.8 million which were partially offset by increased accounts payable and accrued liabilities of $17.1 million, all to support higher net sales.

Investing Activities

Net cash used in investing activities for the first six months of 2011 was $9.5 million, of which $6.5 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 six months of 2010 was $5.7 million of which $6.2 million was for capital expenditures, partially offset by proceeds of $1.0 million received from the sale of an idle facility.

Financing Activities

Net cash provided by financing activities for the first six months of 2011 was $3.0 million, consisting primarily of a net increase in long-term debt of $4.5 million, offset by $2.1 million in dividend payments. The additional debt was primarily used to meet domestic working capital requirements as net sales increased.

Net cash provided by financing activities for the first six months of 2010 was $13.5 million, consisting primarily of a net increase in long-term debt of $15.5 million, offset by $2.0 million in dividend payments. The additional debt was primarily used to meet domestic working capital requirements to support higher sales.

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)	**July 3, 2011**	**December 31, 2010**
Revolving credit agreement, weighted-average interest rate of 1.8% (2011), and 1.1% (2010) due in 2015	$ **74,500**	$ 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 $74.5 million and $70.0 million outstanding under the revolving credit agreement at July 3, 2011 and December 31, 2010, respectively. At July 3, 2011 and December 31, 2010, we had $72.7 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 July 3, 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 July 3, 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 $326,000 or $9.19 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.

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.

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 July 3, 2011.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting for the quarter ended July 3, 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-seven open lawsuits; we have been dismissed as a defendant from an additional twenty-one 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.

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 July 3, 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
Total		35,500		35,500	

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.

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: July 26, 2011

CTS Corporation

/s/ Donna L. Belusar
Donna L. Belusar
Senior Vice President and
Chief Financial Officer

Dated: July 26, 2011